

1-2010

PUBLIC

ADMINISTRATION

&

REGIONAL

STUDIES



**DUNĂREA DE JOS UNIVERSITY
LAW FACULTY
PUBLIC ADMINISTRATION DEPARTMENT**

PUBLIC ADMINISTRATION & REGIONAL STUDIES

No. 1-2010

DIRECTOR

Ph.D. Professor ROMEO IONESCU, Dunarea de Jos University, Romania

EDITORIAL BOARD

Editor-in-Chief

Ph.D. Professor, RADUCAN OPREA, Dunarea de Jos University, Romania

Editors

Ph.D. Professor VIOLETA PUSCASU, Dunarea de Jos University, Romania

Ph.D. Lecturer FLORIN TUDOR, Dunarea de Jos University, Romania

INTERNATIONAL ADVISORY BOARD

Dr. ELEFThERIOS THALASSINOS, Piraeus University, Greece, European Chair Jean Monnet, General Editor of European Research Studies Journal and Foreign Policy Magazine

Dr. PIERRE CHABAL, Universite du Havre, Expert of the Institut de Relations Internationales et Strategiques Paris

Dr. LUMINIŢA DANIELA CONSTANTIN, A.S.E. Bucharest, President of Romanian Regional Sciences Association

Dr. ANDREAS P. CORNETT, University of Southern Denmark

Dr. DANA TOFAN, University of Bucharest, General Secretary of Paul Negulescu Institute of Administrative Sciences

Dr. AGNIESZKA BITKOWSKA, University of Finance and Management, Warsaw, Poland

Ph.D. GIANCARLO FERRERO, University of Urbino, Italy

Dr. GIORGOS CHRISTONAKIS, Expert of Foreign Affairs, Member of National Centre of Public Administration & Local Government, Greece.

Ph.D. FABIO MUSSO, University of Urbino, Italy

Ph.D. IRENA SZAROWSKÁ, Silesian University, School of Business Administration, Department of Finance, Czech Republic

Ph.D. DOMENICO CONSOLI, University of Urbino, Italy.

FOREWORD

There was a time, not too long ago, when most specialists were pessimistic about the future of the European Union.

Nowadays, the European Union has become a powerful economic, politic and social entity able to assume the role of world leader. Practically, Europe begins to identify with the European Union.

For Romania, the adhering process was a great challenge and the future complete integration represents the greatest challenge too.

So, we consider that it is the time of a greater implication in order to support the conceptual framework and to improve the scientific approach in our country.

We consider that an efficient public administration and a dynamic regional policy are the key elements in order to achieve a sustainable development in Romania.

As a result, we try to build a bridge between Romanian and foreign specialists in public administration and regional sciences in order to propose solutions for improvement using this new publication.

We want to express our gratitude to our international advisory board for having honoured our initiative named PARS.

PARS invites you to send articles for consideration in order to support our approach.

**DIRECTOR,
Ph.D. Professor ROMEO IONESCU
Dunarea de Jos University, Romania**

CONTENTS

PRIVATIZATION OF ENTERPRISES IN POLAND..... Agnieszka Bitkowska, Krystyna Leszczewska	7
TAX RELATED MEASURES AS AN ANTICRISIS INSTRUMENT - A CASE OF ESTONIA, FINLAND, GREECE, IRELAND, SLOVAKIA AND ROMANIA Irena Szarowská	23
CONSIDERATIONS REGARDING THE STRUCTURE AND LIMITS OF EFFICIENCY IN THE ADMINISTRATIVE PROCEDURE Giorgos Christonakis	36
INNOVATION ACTIVITIES IN POLAND..... Krystyna Leszczewska, Agnieszka Bitkowska	58
ROMANIAN ECONOMIC POLICY UNDER THE TRAP INNOCENCE..... Romeo Ionescu	87
REGIONAL DEVELOPMENT BY INCREASING THE COMPETITIVENESS AND COMBATING THE TAX EVASION.... Florin Tudor	106
TEACHING ENGLISH TO PUBLIC ADMINISTRATION SERVANTS. EUROPEAN STRUCTURAL FUNDS CO- FINANCED PROJECT ENGLISH LANGUAGE - A BRIDGE TO THE EUROPEAN UNION..... Lavinia Nădrag, Onorina Botezat	114
TERRITORIAL DISPARITIES OF THE NATURAL MOVEMENT OF POPULATION IN GALATI COUNTY DURING THE POSTCOMMUNIST PERIOD..... Iulian Adrian Șorcaru	122
ROMANIA'S REGIONAL POLICY: PROGRAMMING AND FINANCIAL INSTRUMENTS..... Orac Camelia Mădălina	131

PUBLIC ADMINISTRATION & REGIONAL STUDIES
3 rd Year, No. 1 (5) – 2010
Galati University Press, ISSN 2065 -569X
PRIVATIZATION OF ENTERPRISES IN POLAND

1. The nature and methods of privatization in Poland
2. Privatization in Poland between 1990-2008
3. Privatization plan in Poland between 2008-2011

Ph.D. Agnieszka Bitkowska

University of Finance and Management in Warsaw, Poland ¹

Ph.D. Krystyna Leszczewska

College of Computer Science and Business Administration in Łomża,
Poland ²

Abstract

The main purpose of the article is to describe the ownership transformation, implemented in Poland. Privatization processes and actions taken to accelerate changes were analysed.

Keywords: ownership transformation, privatization process, indirect privatization, direct privatization, liquidation.

JEL Classification: D21, D29.

¹ Lecturer at the University of Finance and Management in Warsaw and Higher School of Ecology and Management, scientific interests: management processes, restructuring of companies, knowledge management, innovation; the author of many articles in Polish and English in the field of process approach in enterprises and the corporate restructuring. e-mail: bitkowska@vizja.pl.

² Vice Rector for Didactics and Students' Affairs, research interests: entrepreneurship, in particular small and medium-sized enterprises and their role in economic development; author of 40 scientific publications in the field of enterprise management; e-mail: k.leszczewska@wp.pl.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

Introduction

Since the early eighties of the twentieth century, privatization has become a global trend. The wave of privatization coexisted with the liberalization of many markets (e.g. the telecommunication, energy, fuel, finance). The positive experience of the British in this respect has encouraged the governments of Western Europe and other countries to undertake the process of privatization. The trend of reducing the share of state-owned firms in the Polish economy began in the nineties of the twentieth century. Competition has led to improvements in business efficiency and economy and accelerated development, improved quality and lowered prices of many services. There have been made efforts to intensify the process of privatization and raise public confidence. Currently, the process of privatization in Poland has slowed down due to the occurrence of the global financial crisis.

1. Privatization produces a number of specific changes in all areas of business. The aim of privatization¹ is to achieve a better strategic position on the market, and consequently to achieve better economic performance in the long term.

Privatization of state enterprises can be attributed to two goals [S.T. Surdykowska, 1997]:

- macroeconomic - in which the privatization changes the ownership structure in the economy;
- microeconomic - increasing efficiency and competitiveness of privatized enterprises, attracting new investment to the company, introducing new management methods.

Consequences of the privatization process of the enterprise are as follows: diversification of activities and modernization of production structures, implementation of new techniques and technologies of production, improved product quality, sales activation. The process is curbed by the economic and social barriers, and above all, distrust to

¹ Privatization means the transformation of the public sector to the private sector; it means to transfer state ownership of public assets in a specific physical or legal entity to a private party. Privatization concerns changes in the ownership structure of enterprises and aims to forge a strong system of government capital in the company. It is connected with limitation of power and responsibility of the state.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

ownership transformation.

Currently, privatization in Poland is carried out mainly on the basis of the Commercialization and Privatization of Enterprises Act¹ of 30 VIII 1996, and the National Investment Funds and their Privatization Act² of 30 Apr 1993.

On the basis of legal acts in force in Poland there are three basic ways of privatization of state enterprises:

- commercialization of state enterprises, i.e. the conversion to company of the Treasury;
- direct privatization;
- liquidation of the company for economic reasons.

Each technique privatization can be realized through a definite path of privatization, i.e. a procedure based on specific, existing legislation. Selection of the ownership transformation method is dependent on company size, type of business, its economic standing, as well as strategic importance for the economy of the state.

The following ways of privatization will be described in the next part: **indirect privatization, direct privatization and liquidation.**

Indirect (or capital) privatization involves a transfer of ownership of state enterprises to private owners in return for their invested capital. That means disposing of shares (stakes) of companies of the Treasury in the way of public announced bid, public tendering, negotiations undertaken on the basis of public invitation, acceptance of an offer made by an entity announcing the auction or publicly announced auction³.

The first stage of indirect privatization is the commercialization, or conversion of a state enterprise into a sole shareholder Treasury owned joint-stock company or limited liability company. The Treasury holds 100% shares or stocks in the company resulting from the commercialization, until the privatization [Prywatyzacja przedsiębiorstw 2008]. Prior to offering to sell shares of the company, a detailed analysis of the legal property of the

¹ Dz. U. z 2002 r., Nr 171, poz.1397.

² On the basis of which 15 national investment funds (NFI) were established as joint stock companies to which the Treasury has made a contribution in the form of stocks of 512 state owned companies.

³ Ustawa z dnia 30 sierpnia 1996 r. o komercjalizacji i prywatyzacji , Dz. U. 2002 r. Nr 171 poz. 1397, z póź. zmian

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

company, the state and development prospects, valuation and evaluation of the implementation of the obligations arising from environmental protection requirements is made.

Disposal of shares (stakes) of sole shareholder companies of the Treasury may be carried out in the way of:

- publicly announced offer, which should include the relevant provisions of agreements on the transfer of shares and enable its conclusion without the need for lengthy negotiations between the parties as to the terms of the contract; [Chróściński, 2001]
- public tender, which consists of a public invitation for potential buyers to submit bids for the purchase of shares of the Treasury. In the invitation to tender, the Minister of the Treasury determines: the number and type of shares being tendered, the minimum selling price, the minimum requirements for investment and social commitments and the amount of securities and the date, place and form of its contribution, the tender submitting method and the information submitted by the bidder. After the deadline for submission of tenders, the committee appointed by the Minister of the Treasury in an open mode opens all submitted bids by potential buyers and assesses their compliance with the announcement. In an implicit mode, it evaluates the tenders submitted and chooses the best bid or withdraws from the auction without a choice. When choosing the best bid, the committee is guided by the criteria set out in the tender notice, in particular the price, method and date of payment of the price; [Chróściński, 2001]
- negotiations undertaken on the basis of a public invitation, which are applied to the privatization of large and medium-sized companies, the controlling stakes of shares which are sold to strategic investors. The negotiations concern the terms of acquisition of shares of the company. When the parties reach agreement on all essential terms of acquisition of shares of the company, the contract follows; [Chróściński, 2001]
- acceptance of an offer made by an entity announcing the auction. The Minister of the Treasury, acting on behalf of the Treasury may sell the shares of public companies in response to the bid published

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

under the Public Offering, the conditions for Introducing Financial Instruments to Organized Trading System and Public Companies Act. This mode applies only to listed companies;

- publicly announced auction, i.e. that potential investors are invited to participate in the auction on the basis of the notices of the Minister of the Treasury published in the countrywide newspaper. Auction can be conducted if the subject of a sale is shares of a company in which Treasury holds no more than 10% of the capital, while the selling price is not lower than the book value of shares. The announcement of the Minister of the Treasury shall include the number and the type of shares subject to the auction, and their participation in the capital of the company, the nominal value of one share/share and a minimum sale price, a payment of money, the amount of the securities and the date, place and form of its contribution. Affixing occurs at the time of signing by the vendor and the participant in the auction a contract of sale of shares with contents as specified in the invitation to participate in the auction; [Prywatyzacja przedsiębiorstw 2008]
- selling shares on a regulated market – regulated securities market is the most prestigious segment of the securities market, which may include buying and selling by individual and institutional investors. Privatization can be done by way of sale of shares which are admitted to trading on a regulated market.

Embracing shares in the increased capital of state companies by private entities is also an indirect form of privatization. In this way the company is able to raise additional capital, while stressing that the Treasury does not achieve any revenue – new shares/shares issued/provided by the company are sold.

Direct privatization of state owned enterprise means disposing of all components of the tangible and intangible assets of state enterprises by selling the company, bringing enterprise to the company, putting the company to be used for consideration [Prywatyzacja przedsiębiorstw 2008].

The main goal of direct privatization is to create a direct possibility of rapid changes in ownership of state enterprises, defined as small and medium-sized. Privatization is direct, that means it is implemented without the adoption by the state-owned enterprise of a legal form of a sole

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

shareholder state-owned company. Actors involved in the process of direct privatization of state enterprises can be both natural and legal persons. A distinguishing feature of direct privatization is its accomplishment by the founding bodies of state enterprises on behalf of the Treasury, with the consent of the Minister of the Treasury. The Minister of the Treasury in the statutory range controls and supervises the privatization by agreeing to launch the implementation of individual projects.

Direct privatization is implemented through:

- **sale of an enterprise**, which can be applied to all enterprises, especially the economically weaker ones, which require investment. It is carried out in a mode of a public tender or negotiations undertaken on the basis of public invitation;
- **bringing enterprise to the company**, it is to bring by the Treasury into a company formed with the participation of other shareholders (employees, state enterprises or investors) a contribution in the form of an enterprise and taking in return the appropriate number of shares or shares. This mode of privatization is used in particular for small and medium-sized enterprises, requiring substantial investment. It is geared to ensure the entry into the company reliable strategic investors (domestic and foreign). The staff and other stakeholders may also join privatized companies;
- **putting the company to be used for consideration**, privatized enterprise may be transferred to individuals' companies, with the participation of workers of state owned enterprise. Agreement on giving an enterprise to be used for consideration is concluded for a period not exceeding 15 years. Application of this path of privatization is connected with the requirement of the company to incur fees to the Treasury. Putting the company to be used for consideration by employees' company in many cases may not provide an adequate flow of capital for development and investment in newly created business entity.

Liquidation of state owned enterprises is a process carried out in companies doing business with the loss involving disposing of tangible and intangible assets and its deletion from the register of state enterprises, after settling issues with creditors. [Ustawa z dnia 30 sierpnia 1996 r. o komercjalizacji i prywatyzacji]. It is the procedure followed in the case of a

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

poor economic condition and without promising opportunities for improving it. The decision to liquidate is made by the initial body. The initial body also appoints a liquidator of the enterprise, which by managing the assets satisfies or secures the claims of creditors, and then ends the business. Liquidation ends up with removing the enterprises from the business register.

2. Between 1990-2008, the privatization process in Poland covered the 7463 state-owned enterprises, of which 1701 were commercialized, 2184 were directly privatized, 1924 were raised in the liquidation for economic reasons, and 1654 were liquidated state owned agricultural enterprises, whose property was taken over by the Agricultural Property Agency.[Prywatyzacja przedsiębiorstw, 2009]. Most companies were subject to the process of ownership transformation in the initial period of transition (1258 companies in the years 1990-1991 and 1402 in 1992). In subsequent years, their number decreased to 35 in 2006. In 2008, the process of transformation covered 72 companies.

In the years 1990-2008, 388 sole shareholder Treasury owned companies were privatized indirectly, including 10 in a mode of free of charge disposal of shares for local government units. In 115 companies the privatization was made with the participation of foreign capital. Last year, 10 companies were privatized including 6 through the free of charge disposal of shares for local government units and in 1 company shares belonging to the Treasury were contributed to another company in exchange for shares in the increased share capital of that company. A company privatized in 2008, operated as a sole shareholder Treasury owned company for an average of about 4.8 years. Figure 2 shows indirectly the privatized companies in 1990-2008.

In the years 1990-2008, the direct privatization covered 2184 state enterprises (including 10 in 2008), and the process of privatization was completed in 2105 enterprises, i.e. 96.4% of enterprises privatized this way. Average process of taking up the privatization until removing from the National Court Register lasted for about 4 months. The largest number of companies subjected to direct privatization in the early period of the transition process, i.e. till the end of 1991 (416), from which 243 (58.4%) were privatized. (Figure 3) According to the Ministry of the Treasury, revenues from direct privatization in 2008 amounted to 160.4 m. zł (in 2007 - 219.4 m. zł).

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

Among the companies privatized in a direct way, 36.1% were operators engaged in the processing industry, 22.5% - construction activity, and 16.4% - associated with trade and repairs. Most of the companies privatized in this way are the entities with up to 249 employees [Prywatyzacja przedsiębiorstw, 2009].

The process of liquidation is carried out in enterprises having a bad economic condition and may result in placing the company into bankruptcy. In the early years of ownership transformations, liquidation for economic reasons was the most frequently used form of transformation. By the end of 2008, for 1924 companies that underwent a process of liquidation in 1073 units (55.8%) this process is completed. In subsequent years, the number of state enterprises undergoing liquidation for economic reasons was decreasing to 10 in 2008.

Liquidation procedures in state-owned enterprises whose liquidation was completed in 2008 lasted for an average of 5.5 years. The largest number of companies subjected to liquidation in the early period of the transition process, i.e. till the end of 1993 (1091), of which 226 (20.7%) were liquidated. State-owned enterprises subject to liquidation and liquidated in the years 1990-2008 are presented in Figure 4.

In the initial period of transformation, the sale of Polish companies to foreign investors provided businesses access to new technologies and global distribution channels and the introduction of modern management methods. As a result, enterprises could not only survive, but also develop activities, introduce new products, gain markets and increase the number of attractive jobs. Investment by foreign firms had a key influence on the dynamics of Polish exports, and thus on the economic growth.

The impact of privatization on the Polish economy, even if there were thousands of transactions less successful, is unambiguously positive. The privatization process in Poland is slow. In addition, privatization in Poland cannot be a way to finance budget deficits. These deficits must be eliminated by balancing economy, both in its exchanges with foreign countries, as well as budgetary expenditure. Comprehensive action is needed to balance the socio-economic development of the country. [Prywatyzacja, a Polska Racja Stanu] Polish economy needs stimulus and action to increase and develop the economic potential of the country and its ability to participate in global scientific and technical progress. The funds from the privatization should be allocated for development (e.g. education,

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

roads and highways, government computerization, etc.). Simultaneously conditions must be created for enhancing and extending the capabilities of private companies of the Polish capital - so that this capital dominated in the national economy.

3. Privatization plan for 2008-2011 has been developed by the Ministry of the Treasury and approved by the Council of Ministers in April 2008. It assumes the privatization of 802 companies operating in over 40 sectors of the Polish economy. Entities included in the plan are the company resulting from commercialization (transforming the state enterprise into a commercial company)¹.

The privatization in the years 2008-2011 requires the adoption of amendments prepared by the Ministry of Treasury to the Commercialization and Privatization Act, which assume to:

- increase openness and transparency of privatization processes;
- extend the possibility of making a free transfer of shares of state-owned units to local government for all the companies with Treasury shareholding;
- adjust the rules of salaries of members of Board of Directors in state-owned companies to market reality;
- sell the shares of companies in a publicly announced auction;
- simplify privatization procedures;
- reduce the costs of privatization;
- shorten the duration of privatization processes.

Privatization of various industries will be implemented in accordance with governmental programs and sector strategies, both existing and being amended and adopted during the program. Privatization plan for 2008-2011 aims to accelerate privatization in Poland. It includes companies from such important industries as financial institutions, energy, chemicals and petroleum industry - where privatization will be initiated or continued - as well as industries: machinery, metal, electronic, electrical, spirits, food, pulp and paper, furniture, clothing and raw materials clothing, transport and shipping.

1

http://prywatyzacja.msp.gov.pl/porta1/pr/141/4047/Plan_prywatyzacji_na_lata_20082011.html z dnia 12.10.09

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

The Plan also includes information and promotional activities regarding privatization, which include:[Kierunki prywatyzacji, 2008]

- **educational projects** - devoted to issues of privatization and various aspects of ownership transformation, especially private property and its importance for the economy of the state. These actions will aim to build trust and public acceptance of privatization in Poland by raising public awareness of economic issues and understanding the importance of the privatization process. Educational projects are targeted to different groups and backgrounds;
- **actions addressed to investors** - to encourage potential investors to actively engage in the privatization program and to facilitate their access to information on sectors of interest to them or privatized companies;
- **creating cards of privatization** - the card of privatization is to be conducted since the inception of the privatization process of the company and will contain information on basic data of the privatized entity and the various stages of privatization. This is to ensure the transparency of the privatization process.

These activities are conducted under the conditions of international economic crisis. Its effect is loss of interest in investing in Polish companies, especially because of the downturn on the stock exchange; as a result, the Ministry of the Treasury introduced the principle of actively searching for investors:

- From 2008 onwards the new website of the Ministry of the Treasury operates service designed for investors;
- Ministry of the Treasury opens Center of Investor Relations. Its main purpose is to inform potential investors of the privatization processes;
- Privatization Plan was presented to potential investors, including during an economic forum in Krynica, and a seminar in Brussels in November 2008, the meetings with representatives of the Open Pension Funds and Private Equity funds organized in the Ministry of Treasury in the spring of 2009, as well as meetings with foreign investors in London, Saudi Arabia, Qatar and Kuwait, United Arab Emirates and Japan and Singapore.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

The plan of privatization in Poland for 2008-2011 aims to define a clear ownership perspective and privatization schedule. Thanks to that, the credibility of privatization processes and their effectiveness will be increased. In addition, supervision of companies of considerable importance for the Treasury will be strengthened.

Since 2008, the Ministry of the Treasury has carried out projects to promote economic education, private property and privatization. Diagnosis of the knowledge of the society and the perception of the privatization process undertaken in 2008 by research firm SMG / KRC Poland Media SA reaffirmed the need to take action to raise awareness of Poles of the positive consequences of privatization and their impact on the current socio-economic development of Poland.

The sharp economic depression on world financial markets in the second half of 2008 resulted in a very significant deterioration in terms of privatization, and consequently a shift in time or temporary suspension of some privatization projects.

Currently, a slowdown of the process of privatization in Poland may be noticed. The first half of 2009, in response to the global financial crisis, has been dominated by a significant reduction in investment decisions, and privatization advisers have suggested withholding major projects until the market boom. One of the effects of the financial crisis is the significantly reduced access to financing for investment by potential strategic investors, who in other circumstances might be interested in the privatization offer of the Treasury. In many cases, economic and financial situation of companies under privatization has worsened and that as well had an impact on shifting deadlines for various projects. [Ocena Przebiegu, 2009]

Summary

The primary objective of privatization is to increase the economic efficiency of enterprises and thus the competitiveness of the economy. What is important is the positive impact of privatization on market functioning and improved conditions for competing companies. The knowledge acquired in the course of privatization processes in different countries, and further projects based on the best practices allows minimizing risks and maximizing the benefits from privatization. The swift completion of this process would improve the competitiveness of Polish

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

economy, economic growth and employment creation. However, unexpected changes in the business environment such as the global financial crisis may stop the privatization. Therefore, it is necessary to implement the appropriate tools and actions that will accelerate these processes.

References

1. Prywatyzacja, a Polska Racja Stanu, http://www.plp.info.pl/dokumenty/prywatyzacja_a_polska_racja_stanu.pdf
2. Chróściński A., Komentarz do art. 33 ustawy z dnia 30 sierpnia 1996 r. o komercjalizacji i prywatyzacji przedsiębiorstw państwowych (Dz.U.96.118.561), w: A. Chróścicki, Ustawa o komercjalizacji i prywatyzacji przedsiębiorstw państwowych. Komentarz, Dom Wydawniczy ABC, 2001.
3. http://prywatyzacja.msp.gov.pl/portal/pr/141/4047/Plan_prywatyzacji_na_lata_2008-2011.html z dnia 12.10.09
4. Kierunki prywatyzacji majątku Skarbu Państwa w 2009 r., Ministerstwo Skarbu Państwa, Warszawa 2008.
5. Prywatyzacja przedsiębiorstw państwowych w 2007r, GUS, Warszawa 2008.
6. Prywatyzacja przedsiębiorstw państwowych w 2008r, GUS, Warszawa 2009.
7. Surdykowska S.T., Prywatyzacja, PWN, Warszawa 1997.
8. Transformacja gospodarcza w Polsce, PWN, Warszawa 2007.
9. Wdrażanie Planu Prywatyzacji na lata 2008-2011, <http://prywatyzacja.msp.gov.pl/dokumenty/zalaczniki/53231.pdf> z dnia 12.10.09
10. Ocena Przebiegu Prywatyzacji Majątku Skarbu Państwa w 2008 Roku, Ministerstwo Skarbu Państwa, Warszawa 2009.
11. Ustawa z dnia 30 sierpnia 1996 r. o komercjalizacji i prywatyzacji, Dz. U. 2002 r. Nr 171 poz. 1397,

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

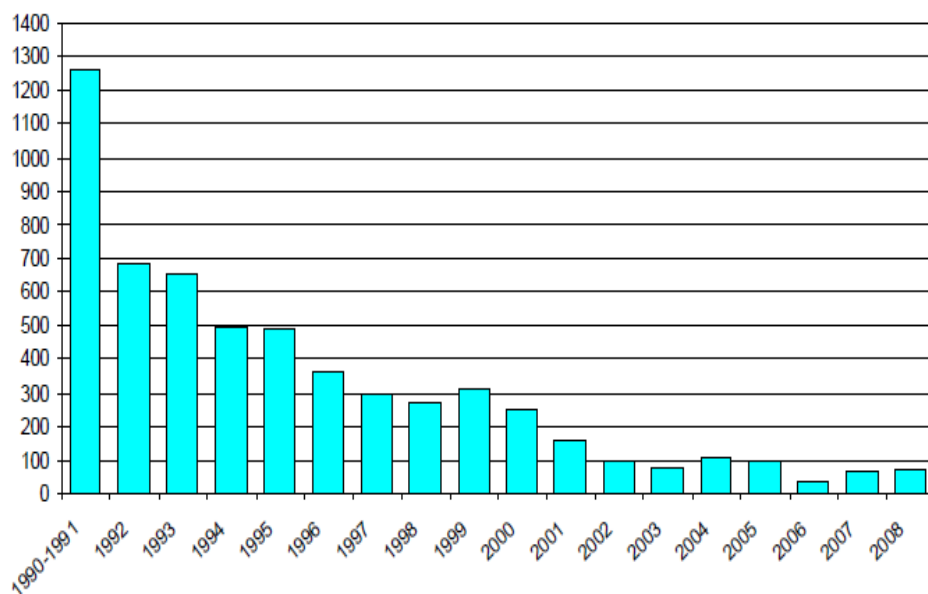


Figure 1. Public enterprises under the ownership transformation process in the years 1990-2008 (without a state-owned enterprises farming)

Source: Prywatyzacja przedsiębiorstw państwowych w 2008r, 2009.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

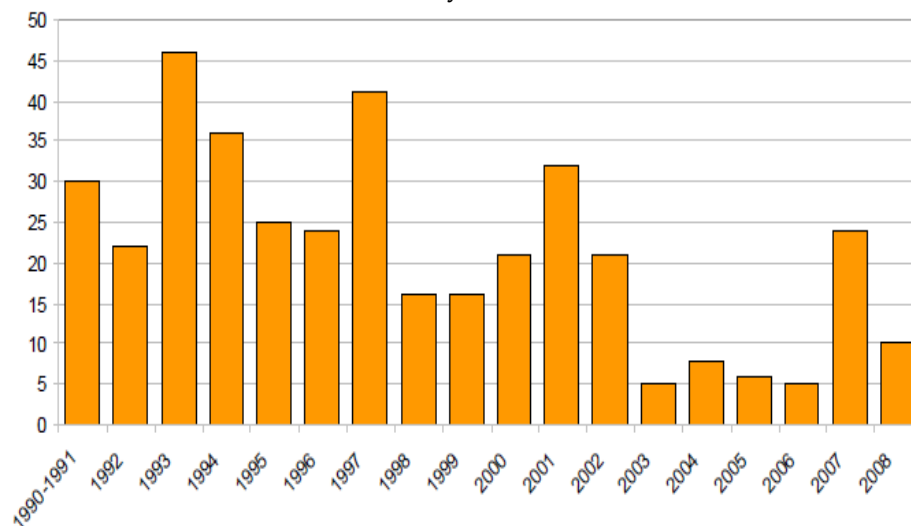


Figure 2. Indirectly privatized companies between 1990-2008

Source: Prywatyzacja przedsiębiorstw państwowych w 2008r, 2009.

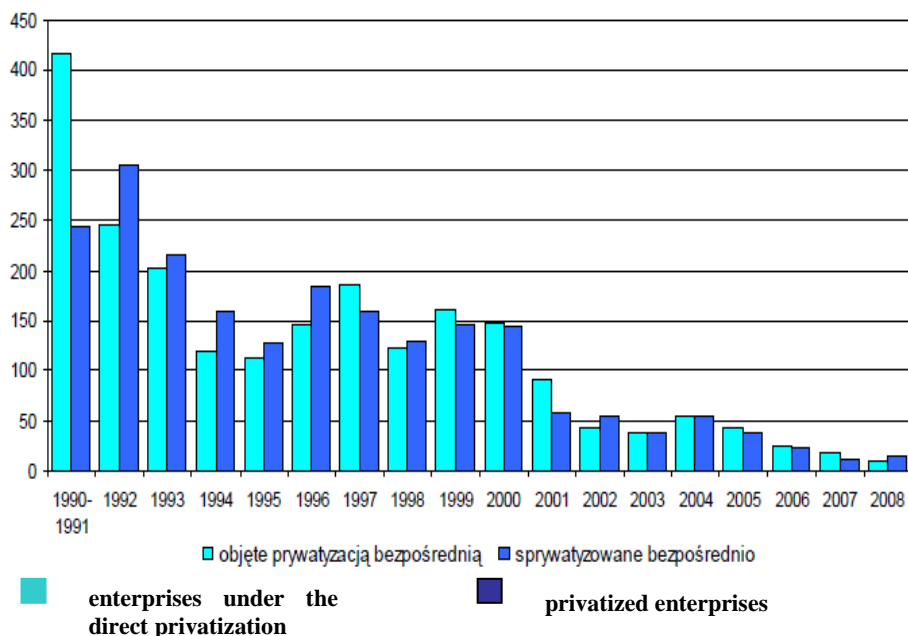


Figure 3. State enterprises under the direct privatization and privatized between 1990-2008

Source: Prywatyzacja przedsiębiorstw państwowych w 2008r, op. cit., s.29.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

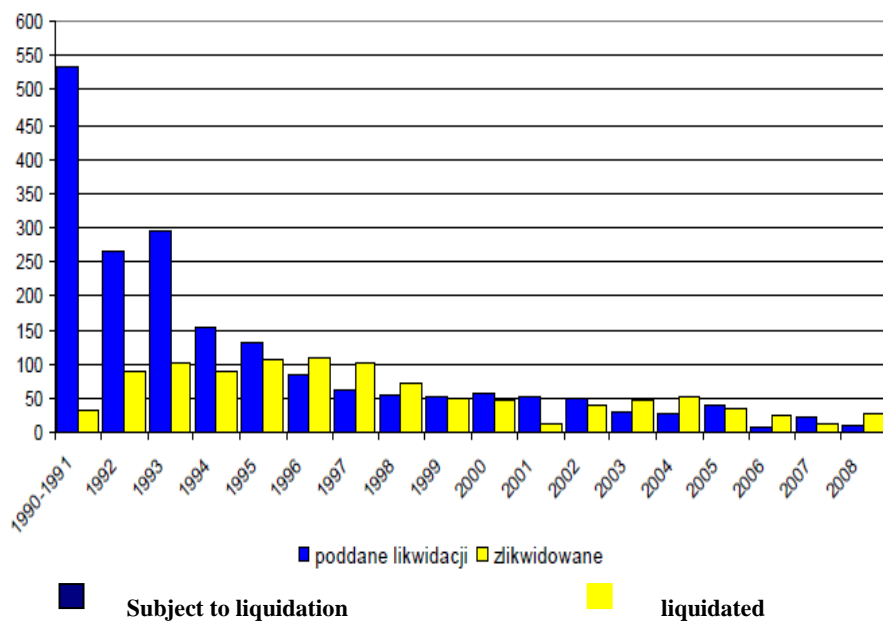


Figure 4. State-owned enterprises subject to liquidation and liquidated between 1990-2008

Source: Prywatyzacja przedsiębiorstw państwowych w 2008r, op. cit., s.34.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) – 2010

Galati University Press, ISSN 2065 -569X

TAX RELATED MEASURES AS AN ANTICRISIS INSTRUMENT – A
CASE OF ESTONIA, FINLAND, GREECE, IRELAND, SLOVAKIA AND
ROMANIA¹

Irena Szarowská²

Abstract

The paper is focused on tax related measures used for solving the economic crisis in selected countries. The impact of the economic crisis on public finances varies across the European Union. As there are 27 sovereign Member States with independent tax policy and none of them are identical, each government has been dealing with its problems individually and the choice of instruments for crisis management reflects the economic and budgetary conditions of each state. The applied measures have various forms – from ad hoc tax measures to substantial structural reforms and they may have a general fiscal impact or only a cash flow impact.

Keywords: recession, economic crisis, taxation, corporate income tax, personal income tax, value added tax

JEL Classification: E62, E63, F4

1. Introduction

The world is currently facing the most severe financial and economic crisis in decades. The latest data shows that the world economy is now in recession. Therefore governments have tried to find solution how to support the economic growth and to consolidate public finance. Also **taxation impacts on and is influenced by the development in financial**

¹ This paper ensued thanks to the support of the grant GAČR 402/08/0067.

² Irena Szarowská, Assistant Professor, Silesian University, School of Business Administration, Department of Finance, Univerzitni nam. 1934/3, Czech Republic. e-mail: szarowska@opf.slu.cz, telephone: +420 596 398 215.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

markets. There are different views of how this problem should be dealt with in general and also applied tools of individual countries have various forms – from ad hoc tax measures to substantial structural reforms. The removal of tax barriers which hamper the effective functioning of financial markets, particularly at the international level, could help countries overcome to the crisis. This includes tax provisions which distort investor choices as to whether to invest directly or by means of collective investment vehicles, and tax provisions which act as a barrier to the use of different financial products which reduce the cost of capital. Governments should also consider the broader tax implications of the government bailout packages for financial institutions and how they may influence the future attitudes of these institutions to risk taking¹.

The aim of the paper is to present tax related measures used to tackling the economic crisis in the selected countries and to summarize the main approaches common to all countries.

2. Economic crisis and tax related measures in the selected countries

The impact of the economic crisis on public finance varies across the Member States. In countries with strong macroeconomic imbalances and/or where the bursting of an asset bubble adds to the effect of the global downturn (e.g. the UK), the budgetary deterioration is more pronounced than in other countries. In some of these countries, the increase in government deficits combined with low growth is set to give rise to a large increase in debt positions.

There are 27 sovereign member states in the EU with independent tax policy and none of them are identical. Each government has been dealing with its problems individually and the choice of instruments for crisis management is influenced by many factors as for example divergence in economic performance, consequences of the crisis on economic growth, employment, inflation, balance of payments, export, etc. It is important to be aware of the time constrained function and assess their potential impact on long-term fiscal stability when applying anti-crisis measures. The variability of these measures reflects the economic and budgetary conditions of individual states. Such measures may have a general fiscal

¹ Valentine, T., Gordon, C. (2009), p. 8-11.

impact or only a cash flow impact¹.

2.1 Tax related anticrisis measures in Estonia²

Estonia's years of rapid catching up, with growth more than 8 % on average between 2000 and 2007, gave way in 2008-9 to the deepest economic contraction since the country's independence. Sizeable imbalances accumulated during the years of high growth, ultimately leading to a reversal of the cycle, which started with a contraction in domestic demand. Given the need to correct significant external and internal imbalances, the Estonian authorities implemented an ambitious fiscal consolidation with a mixture of permanent and temporary measures, both on the revenue and expenditure sides in 2009. In particular, the reduction of the public sector wage has contributed positively to the imbalances in the economy, while scaling down planned pension increases and other changes to the pension law, will also improve sustainability of public finances in the medium term. It 's possible to give an example of tax related measures taken in response to the crisis following:

- Increase in the reduced VAT rate from 5 % to 9 %, narrowing of the range of goods to which the reduced rate is applicable;
- Deferral of the income tax rate cut by 1 percentage point;
- Deferral of the increase in the annual personal allowance;
- Increase the excise tax on tobacco in 2010 and 2011.

2.2 Tax related anticrisis measures in Finland³

After a decade of rapid export-driven growth, Finland entered the global crisis in 2008 from a relatively strong position, having built up a substantial surplus in the current account and government finances. The global crisis has had a strong impact on the export dominated Finnish industry, as well as on the domestic sectors through negative confidence

¹ Dvořák (2008), p. 326-331.

² Based on data from Taxes in Europe [database online], Taxation trends in the European Union (2009), Tax responses to the global economic crisis (2009) and European Economic Forecast Autumn 2009.

³ Based on data from Taxes in Europe [database online], Taxation trends in the European Union (2009), Tax responses to the global economic crisis (2009) and European Economic Forecast Autumn 2009.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

effects. At the outset, the global crisis had a sharply negative impact on consumer confidence, even though domestic factors implied a solid rise in consumer purchasing power in 2008 and 2009. Given the sizeable surplus in public finances recorded in 2008, Finland allowed the full operation of automatic stabilisers and in addition provided for a relatively large fiscal stimulus

In 2009 and in 2010, the fiscal stimulus is heavily concentrated on tax cuts (primarily cuts to personal income tax), making up about 80 % of the stimulus packages. Finland is the only country reducing VAT rate. A cut of VAT on food by 5 % from 1 October 2009 (it is assumed to reduce inflation by about 0.5 %) should be partly offset by a rise in alcohol and tobacco excises. A rise of the general VAT rate by 1 % from July 2010 is offset by a 9 % cut in VAT on restaurant services. Adopted changes can be summarized as follows:

- Increase in the excise duties on alcohol and tobacco by 10 %;
- Adjustment for inflation of the income tax scale by 4 %;
- Rate reduction in all the four state income tax brackets (between 1 % and 1.5 %);
- Introduction of a new labour income tax credit targeted at low- and medium-income earners;
- Increase in the pension income allowances in state and municipal income taxation;
- Increase in the tax credit for paid household work to € 3 000 per taxable person;
- Decrease in the national pension contribution paid by employers by 0.8 % as of 1 April 2009;
- Decrease in the VAT rate on food from 17 % to 12 % as of 1 October 2009;
- A rise of the general VAT rate from 22 % to 23 % from July 2010, reduction reduced VAT rate from 17 % to 8 % on restaurant services.

2.3 Tax related anticrisis measures in Greece¹

Currently Greece is one of the most crisis affected country. Having experienced a decade of economic growth of 4% on average, the Greek economy entered a recessionary phase in 2009. The accumulation of growing and long-term persistent domestic and external imbalances was accelerated by the unfolding of the ongoing crisis, weighing on the sustainability of the real convergence process in the long run. As public revenue depends strongly on indirect taxation and customs, weak consumption and decreasing imports translate swiftly into lower tax receipts and significant revenue shortfalls. In addition, the economic downturn is burdening social protection expenditure, leading to a further fiscal deterioration. With the general government deficit well above 3% of GDP on average over the current decade, and the accumulation of large debt increasing below-the-line operations, public debt is quickly returning to levels well above 100% of GDP, which can raise the cost of financing government debt. The economic downturn, coupled with high budget deficits has prompted the Government to take these tax oriented measures:

- Introduction of extra tax on personal income for high income earners (income above € 60 000). The tax is gradually increased from € 1 000 for income between € 60 001 and € 80 000 to € 25 000 for income above € 900 000;

- Income policy 2009 for public servants, doctors in the national healthcare system, employees of public law corporate bodies, local authorities, Police, Fire Department, Port's Corps and the Army, consists of a non-taxable amount of € 500 for gross income up to € 1 500, and € 300 for gross income between € 1 501 and € 1 700. No other wage increase was granted in 2009.

- Introduction of a special benefit of € 500 to unemployed persons or low-income pensioners who had contracted a mortgage loan in March 2009;

- Introduction of a special social cohesion benefit for 2009 to low-income pensioners, farmers-pensioners and long-term unemployed

¹ Based on data from Taxes in Europe [database online], Taxation trends in the European Union (2009), Tax responses to the global economic crisis (2009) and European Economic Forecast Autumn 2009.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

persons. The benefit is non-taxable and ranges from € 100 to € 200 depending on the geographic region of residence;

- Reduction from 2 % to 0.5 % of a local authority duty imposed on shortstay accommodation (in hotels, motels, bungalows, rooms-to-let facilities, camping) and on gross revenue of restaurants, clubs, bars, etc. Suspension of the banking fee of 0.6 % on loans to hotels or other types of accommodation facilities for 2009;

- For the years 2009–10, reduction of the applicable rate of the single property tax from 1 % on owner occupied buildings and 6 % on building plots to 0.33 % for real estate owned by hotel businesses;

- Car registration tax reduction of 50 % for the period April–August 2009;

- Suspension of airport landing and parking fees for the period April–September 2009 (excluding Athens International Airport).

Moreover the Government has decided on a stricter on combating tax avoidance (provided in the EU stability program).

2.4 Tax related anticrisis measures in Ireland¹

Irish economy entered recession in 2008. After over a decade of strong economic growth that had been increasingly driven by domestic demand, a sharp adjustment from its 2006 peak started in the Irish housing market and has since spread to the wider economy. This development was amplified by the decline in global demand and especially by the recession in Ireland's main trading partners (euro area, US and UK). The international financial crisis contributed to the deepening of the downturn, given the weight of the financial services sector in the Irish economy and banks' high dependence on foreign wholesale funding. The domestic property market correction and the financial crisis have deepened Ireland's problems regarding public finances. Starting from mid-2008, the Government implemented deficit-reducing measures estimated to amount to 4.5 % of GDP in 2009. In 2009, a series of tax-increasing measures

¹ Based on data from Taxes in Europe [database online], Taxation trends in the European Union (2009), Tax responses to the global economic crisis (2009) and European Economic Forecast Autumn 2009.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

moderated the revenue decline which followed the severe economic downturn and ongoing adjustment in housing market. It's necessary to point out the next measures:

- Increase in the standard VAT rate from 21 % to 21.5 % in December 2008 and in some excise duties;
- Widening of the standard tax band by € 1 000 for a single person, and by € 2 000 for a married couple with 2 incomes;
- Introduction of income levy of 1 % on gross income up to € 100,100 per annum and a rate of 2 % for income above this amount. On income in excess of € 250,120 a further 1 % is payable. Social welfare payments are excluded from this levy. From 1st May 2009 the income levy rates were doubled to 2 %, 4 % and 6 %. The exemption threshold is € 15,028. The 4 % rate applies to income in excess of € 75,036 and the 6 % rate to income in excess of € 174,980;
- Introduction of a pension levy on public sector wages. New arrangement: first € 15,000 of earnings exempt, 5 % on next € 5,000 of earnings, 10 % on earnings between € 20,000 and € 60,000 and 10.5 % on earnings above € 60,000;
- Increase in the employee SSC ceiling from € 50,700 to € 52,000. From 1st May 2009 increase in the employee SSC ceiling from € 52,000 to € 75,036;
- Increase in the capital gains tax from 20 % to 22 %. From 8 April 2009, it increased to 25 %;
- From 8 April 2009 increase in capital acquisitions tax rate from 22 % to 25 %;
- From 8 April 2009 increase in Deposit Interest Retention Tax (DIRT) from 23 % to 25 %;
- Increase in the R & D tax credit from 20 % to 25 % of incremental expenditure;
- Reduction of the stamp duty top rate from 9 % to 6 %;
- Payment dates for corporation and capital gains tax were brought forward in 2009.

The Government believe that tax revenue developments in 2010-11 will be in line with the expected economic growth, while also reflecting the effect of measures taken in the course of 2009 (as well as the disappearance of some deficit-reducing one-off measures in 2009). The shift away from tax-rich domestic demand-driven growth to export-led growth, with

sluggish employment and consumption growth, would lead to only a moderate tax revenue increase once the economic recovery takes hold.

2.5 Tax related anticrisis measures in Slovakia¹

With an average real GDP growth rate of over 7 % during the period 2003-08, Slovakia was one of the best-performing EU countries. At the same time, the external position remained 2 % to 5 %. These achievements enabled Slovakia to adopt the euro in January 2009, which helped to shield the country from potential exchange rate pressure and supported confidence during the crisis. Given its high degree of trade openness, the Slovak economy has been particularly exposed to the crisis. It has been affected primarily through the trade channel, as the demand from trading partners has plummeted, triggering a plunge in exports by some 25 % in the first half of 2009 compared to the same period of 2008. This was followed by an even larger fall in imports, as uncertainties related to the crisis led to a massive increase of savings by both households and the corporate sector. Private investment and consumption fell, the same as real GDP. Several years of expansionary policies during the economic boom phase increased the Slovak structural deficit. In line with the European Economic Recovery Plan, the Government decided to let automatic stabilisers operate freely in 2009. Recent amendments to Slovakia's Income tax Act and changes to the VAT law (both effective from 1 March 2009) were not introduced specially to address the financial crisis, but may have some anti-crisis effects:

- The input price of tangible assets and technical improvements on intangible assets has increased to € 1,700 and that for intangible items increased to € 2,400;

- For depreciation of tangible assets, "component depreciation" allows taxpayers to depreciate certain identified individual separable parts (for buildings, computer network infrastructure, personal and cargo elevators, escalators, etc.);

¹ Based on data from Taxes in Europe [database online], Taxation trends in the European Union (2009), Tax responses to the global economic crisis (2009) and European Economic Forecast Autumn 2009.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

- Increase in the PIT basic allowance from € 3,435.27 to € 4,025.70 per year;
- Introduction of an employee tax credit as a form of negative income tax in the maximum amount of € 181.03 per year;
- Decrease in the rate of contribution to the Social Insurance Agency (reserve fund of solidarity) from 4.75 % to 2 % for mandatorily insured self-employed;
- Reduction of the period for refunding VAT deductions from 60 days to 30 days;
- Changes in rules of property depreciation increase the input price for investment property depreciation, accelerated depreciation and depreciation of components;
- Changes in tax legislation concerning business environment group registration of VAT, retroactive registration and simplification of record-keeping for tax purposes for small entrepreneurs;
- State subsidy and corporate income tax allowance for research activities carried out by the business sector.

2.6 Tax related anticrisis measures in Romania¹

The economic boom between 2004 and 2008 has led to overheating pressures and unsustainable fiscal and external imbalances. Moreover, years of procyclical budgetary policy had led to a sizeable deterioration in the underlying fiscal position, with the structural deficit rising from 2.4 % of GDP in 2005 to 8.5 % of GDP in 2008. Market participants and economic agents became increasingly concerned by these developments. This resulted in a significant tightening of capital flows to Romania and stress in the banking system. Pressures on the exchange rate increased, resulting in a more than 30 % cumulative depreciation between August 2007 and January 2009. Balance sheet effects and a sharp decline of export demand plunged the economy in a severe recession in late 2008. In these conditions, the authorities decided to seek external financial support. The EU, the IMF, the World Bank, the EIB and the EBRD responded by making available to

¹ Based on data from Taxes in Europe [database online], Taxation trends in the European Union (2009), Tax responses to the global economic crisis (2009) and European Economic Forecast Autumn 2009.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

Romania medium-term financial assistance of up to EUR 20bn. This assistance is conditional upon the implementation of a comprehensive economic policy programme, comprising fiscal consolidation and reform measures in the area of fiscal governance, structural reform and financial sector supervision. The following tax measures have been taken to address the global financial crisis:

- Beginning in 2009, dividends are exempt from the tax on dividends if distributed and reinvested in the distributing company's own activity, or in the share capital of another Romanian legal entity, for the purpose of securing and creating new job;

- Also starting from 2009, an additional 20 % deduction is applicable for qualifying R&D expenses, and accelerated depreciation applies to equipment used for R&D activities;

- VAT rate reduction (from 19 % to 5 %) for the construction of social dwellings and, subject to conditions, private dwellings not exceeding 120 m² and a value of RON 380,000 (about € 90,000);

- Taxpayers who derive income from agricultural activities will be required to pay a 2 % tax on their gross income;

- Increase in employee's and employers' SSC rates; decrease in employers' contributions for work accidents and professional diseases by 0.5 %;

- Increase in level of deductibility of voluntary health insurance (from € 200 to € 250) and threshold of deduction for employees' contribution to facultative pension schemes (€ 200 to € 400);

- Increase in the cap for the deductibility for voluntary pension and health contributions from corporate and personal income;

- Temporary tax exemptions on capital gains from trading securities on the Romanian stock market;

- Specific types of capital gains realised by non-residents are now subject to permanent tax exemption;

- Reduction in dividend taxes of non-residents from 16 % to 10 %;

- Reduction in the car pollution tax;

- Increase in excise duties on alcohol beverages, cigarettes and fuel as from April 2009.

In addition from 1 January 2009, interest income derived from term

deposits and / or other saving instruments are deemed nontaxable income when derived by individuals. If such individuals are resident in non-EU member states, such income is exempt from withholding tax in Romania.

3 Common features of tax related measures in European Union member states

Tax measures implemented in a period 2008 – 2009 may be divided into several groups.

One of the most common type of tax measures was the direct support of household spending power by reductions in the personal income tax (PIT). This happened more often through increases in allowances than cuts in rates, because of equity considerations but also because an increase in allowances, having a proportionally higher impact on lower-income households, is expected to more directly boost private consumption. In a few cases, PIT rates were even increased, but this was typically limited to higher incomes. Some countries suffering from particularly pronounced drops in GDP decided to defer previously decided PIT rate cuts¹.

Another group consists of measures relating to corporate taxation. Measures reducing the general corporate income tax rate were rare, presumably owing to the fact that such a measure, while boosting confidence in the long run, has no short-term impact on loss-making companies. Many member states also attempted to support business investment through measures such as more generous depreciation allowances or investment tax credits. The cuts were targeted towards small and medium enterprises in a few cases. Some European states have opted for granting these incentives for a limited period of time only, in order to give an immediate boost to capital spending.

As to indirect taxation, EU member states have generally not opted for temporary VAT rate cuts as a way to boost consumer spending in the short run. One exception is possible to find as Finland decreased VAT on food. In contrast, a number of Member States hiked VAT rates, curtailed the scope of exemptions and reduced rates, or increased excise duties to

¹ Taxation trends in the European Union (2009).

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

help cover the budgetary shortfall generated by the slump. Member States did not cut excise duties on energy products, although for example Italy cut excise duties on gas for industrial use and granted some tax and social contributions relief to road haulage operators.

One more effect of the crisis can be seen: demands for fairness have come more clearly to the forefront. This idea, together with the budgetary needs, has stimulated international cooperation on ensuring more effective taxation of portfolio investments held abroad. There is now visibly greater international consensus on information exchange, the final objective of the Savings Directive and of the Mutual Assistance Directive, which represent the EU approach in this area.

4. Conclusion

The response to the crises may have various forms. Some European Union member states have decided to introduce substantial structural reforms, reduce tax burden from income taxation and increase tax burden of consumption, or have introduced a unified VAT rate. Other states have made only minor changes and amended the tax codes by introducing measures protecting the tax base. There are 27 sovereign member states in the EU with independent tax policy and none of them are identical. Each government has been dealing with its problems individually and the choice of instruments for crisis management is influenced by many factors. International tax cooperation in tackling economic crisis is limited to the determination of what member states should refrain from doing, such as protectionism, discrimination of non resident taxpayers, and reverse discrimination of resident taxpayers.

Literature:

[1] Deloitte, *Tax responses to the global economic crisis* [online].
Last updated 25.06.2009 [cit.2010-03-23]. Url
<<http://topic.feeds4all.nl/Deloitte-Report-Tax-responses-to-the/1718503753.aspx>>.

[2] Dvořák, P., *Veřejné finance, fiskální nerovnováha a finanční krize*.
Praha: C.H.BECK, 2008, 343 p. ISBN ISBN 978-80-7400-075-1.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

[3] European Commission, *European Economic Forecast Autumn 2009* [online]. Published on 3 November 2009 [cit.2010-03-23].
Url <ec.europa.eu/economy_finance/publications/publication16055_en.pdf>

[4] *Taxation trends in the European Union*. Luxembourg: Office for Official Publications of the European Communities, 2009. ISBN 978-92-79-11172-3.

[5] *Taxes in Europe* [database online]. Brussels: European Commission, 2009 [cit. 2010-03-23]. Access from Url <http://ec.europa.eu/taxation_customs/taxation/gen_info/info_docs/tax_inventory/index_en.htm>.

[6] Valentine T., Gordon C. *Economics in Focus: The Global Financial Crisis*. Pearson Education Australia, 2009, 51 p. ISBN 9781442525962.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

CONSIDERATIONS REGARDING THE STRUCTURE AND LIMITS
OF EFFICIENCY IN THE ADMINISTRATIVE PROCEDURE

1. The Environment of the Efficiency Reception.
2. Arguments for Removing of the Prior Restraint from Subordinating the Economic Efficiency in Legal Significance.
3. Dogmatic Subordination of a Meta-legal Efficiency Term I.
4. Limits of Application of Efficiency in the Administrative Procedure.

Dr. jur. Giorgos Christonakis¹

Abstract:

The paper deals to the valid relation of efficiency, in its potential - though limited - application, with other competing principles in Administrative Law. It is focused on finding arguments for removing of the prior restraint from subordinating the economic efficiency in legal significance, as well. As a result, it was necessary to analyse the dogmatic subordination of the meta-legal efficiency and to establish the limits of the efficiency in the administrative procedure.

Keywords: public interest, administrative law, theoretical and methodological horizon to public law.

JEL Classification: K23, K39

Administrative measures are efficient when the goals they serve for the public interest are so important, as to justify the consumption of time, human effort and social resources and these goals could not be achieved through a lower disposal of resources.² Scarcity of resources should be distributed in competing possibilities of absorption/consumption in such a

¹ Dr. Giorgos Christonakis, Expert of Foreign Affairs, Member of National Centre of Public Administration & Local Government, Greece. Tel. 0030-6973442038, gchristonakis@yahoo.de

² BAER, *Schlüsselbegriffe, Typen und Leitbilder als Erkenntnismittel und ihr Verhältnis zur Rechtsdogmatik*, in SCHMIDT-AfIMANN/HOFFMANN-RIEM, *Methoden der Verwaltungsrechts-wissenschaft*, Baden-Baden 2004, 223 et. seq.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

way that the maximum profit possible is produced. To what extent, however, by the application of provisions of administrative law are we allowed to weigh up, under inclusion of the economic principle of efficiency, as to what primarily constitutes a platform for a joint confrontation of principles of economy (minimal principle), use (maximal principle) and expediency (effectiveness)? What is the valid relation of efficiency, in its potential - though limited - application, with other competing principles in Administrative Law?

Furthermore, treating efficiency as a general principle regarding the whole spectrum of application of public law provisions, beyond its simpler version as merely a saving of resources, would equal - to a certain degree - juxtaposition with the thematic referring to the possibilities and the limits of the economic analysis of law¹.

Besides, it would be excess to requirements in the administration to process, in the critical way imposed by such a complex "instrumentalized" system as the economic example and to manage it by incorporating in its practice the possibilities and the restrictions of its methods.

It should be pointed out that decisions in favour of efficiency can easily lose their advantage because of the probably high cost to write and draw its content.

Reports about administrative economy and, thus, efficiency are concluded by the Constitutional provisions with regard to the competence of State Audit Council, in the principle of rational organisation of state operations and services, in the principle of viability, as well as in individual, mainly budgetary statutes. ²

[This lecture will take the form of a thesis.]

¹ For instance KIRCHNER, *Okonomische Theorie des Rechts*, Berlin / New York 1997; regarding Public Law Engel/Morlok, *Offentliches Recht als ein Gegenstand okonomischer For-schung*, Tübingen 1998.

² GROPL, *Haushaltsrecht und Reform, Haushaltsrecht und Reform. Dogmatik und Möglichkeiten der Fortentwicklung der Haushaltswirtschaft durch Flexibilisierung, Dezentralisierung, Budgetierung, Okonomisierung und Fremdfinanzierung*, Tübingen 2001, 329 et seq.; ORTMANN, *Die Fi-nanzwirksamkeit verfassungsgerichtlicher Entscheidungen im Spiegel der Rechtsprechung des Bun-desverfassungsgerichts*, Baden-Baden 2007, 564 et seq..

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

A. The Environment of the Efficiency Reception

I. The Expansion of the Theoretical and Methodological Horizon to Public Law

Administrative law has considerable effects on resource allocations and can cause substantial transaction and information costs due to the distribution of rights and obligations. Different areas of public law attracted the attention of economic sciences, for instance by the introduction of the New Public Management theory into the public administration¹ or the use of cost-benefit analysis,² in particular in Environmental Law.³

Economics as a comprehensive term nowadays is used for a multiplicity of approaches aiming at analysing social institutions and consequently law and politics as phenomena of rational behaviour of individuals. Economic models could induce a better theoretical understanding of the multilayered problem areas of the public legal order. A normative requirement of economics, especially the New Institutional Economics, has emerged to develop instructions regarding the legal order by analyzing whether law and the jurisdiction achieve the politically given goals with the available means⁴, so that they aim at pursuing the change of legal rules that are not efficient.

¹ See DAHM, *Das neue Steuerungsmodell auf Bundes- und Landerebene sowie die Neuordnung der öffentlichen Finanzkontrolle in der Bundesrepublik Deutschland*, Berlin 2004.

² GROPL, *Ökonomisierung von Verwaltung und Verwaltungsrecht*, *Verwaltungsarchiv* 93 (2002), 459 et seq. FEHLING, Michael, *Kosten-Nutzen-Analysen als Maßstab für Verwaltungsentscheidungen*, *Verwaltungsarchiv* 95 (2004), 443 ff.

³ ACKERMANN/HEINZERLING, *Pricing the Priceless: Cost-Benefit Analysis of Environmental Protection*, 150 *University of Pennsylvania Law Review* (2001/2002), 1553 et seq.; ADLER, *Cost-Benefit Analysis, Static Efficiency, and the Goals of Environmental Law*, 31 *Boston College Environmental Affairs Law Review* (2004), 591 et seq. This concerns the question, which qualitative and quantitative risks for humans and environment are we willing to accept for which economic use.

⁴ So for instance LADEUR, *Die rechtswissenschaftliche Methodendiskussion und die Bewältigung des gesellschaftlichen Wandels. Zugleich ein Beitrag zur Bedeutung der*

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

Public Law makes references to the empirical sciences, commonly used in the legal system of the U.S.A.; its structural openness for social science approaches, is compatible with the theory and methodology of Public Law in European countries.¹ That favours the opinion that some contents of certain economic principles could be compatible with the methodological perception of Public Law.

II. Methodological Preparatory Work

Consequently, a structuring of a realization process which is in demand could unite the above mentioned different perspectives and disciplines. Andreas Vosskuhle suggests the following seven-level-model:

- analysis of motives for the inclusion of Economics as an empirical method;²
- determination of the real data for the analysis;³
- analysis of the political discussions and the conclusions and proposals from empirical sciences, as well as of the theoretical grounds and the relevant solutions for the crucial questions from the point of view of Economics⁴ (*comp. certificates of pollution*¹);

ökonomischen Analyse des Rechts, *Rabels Zeitschrift für Ausländisches und Internationales Privatrecht* 64 (2000), 60/93.

¹ See KIRCHNER, *The Difficult Reception of Law and Economics in Germany*, 11 *International Review of Law and Economics* (1991), 277 et seq.; also Susan ROSE-ACKERMANN, *The Economic Analysis of Public Law*, 1 *European Journal of Law and Economics* (1994), 53 et. seq..

² VOSSKUHLE, *Methode und Pragmatik im Öffentlichen Recht. Vorüberlegungen zu einem differenziert-integrativen Methodenverständnis am Beispiel des Umweltrechts*, in Bauer/Czybulka/Kahl/Vosskuhle, *Umwelt, Wirtschaft und Recht. Wissenschaftliches Symposium aus Anlaß des 65. Geburtstages von Reiner Schmidt*, Tübingen 2002, 171/189.

³ VOSSKUHLE op cit supra, 190

⁴ VOSSKUHLE, *Das Kompensationsprinzip. Grundlagen einer prospektiven Ausgleichsordnung für die Folgen privater Freiheitsbetätigung - Zur Flexibilisierung des Verwaltungsrechts am Beispiel des Umwelt- und*

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

- analysis of the compatibility of the above mentioned solutions based on the principles of public law²;
- analysis of the criteria set as the basis of the solution; *whoever proposes the import of certificates of pollution by referring to the model of Economics, should recognize the basic admissions of the so-called Economic Example (homo oeconomicus, scarcity of resources and methodological individualism), compare the solution of certificates with other economic tools and be capable of counter argumentation*;
- analysis of the practical consequences of the solution chosen for the application of laws, the theory and the exercise of administrative discretion³ (see further sub).

III. Formulation of Terms in an Interdisciplinary Approach

This means that law and economics maintain their independence concerning particular working methods and any justification and legalization requirements. At the same time a comparison between them can be ascertained; as it is:

Planungsrechts, *Tubingen 1999*; STUER/SPREEN, *Emmissionszertifikate. Ein Pladoyer zur Einfuhrung marktwirtschaftlicher Instrumente in die Umweltpolitik, Umwelt- und Pla-nungsrecht 1999, 161 et seq.*

¹ ACKERMANN/HEINZERLING, *Pricing the Priceless: Cost-Benefit Analysis of Environmental Protection*, 150 *University of Pennsylvania Law Review* (2001/2002), 1553 et seq.; ADLER, *Cost-Benefit Analysis, Static Efficiency, and the Goals of Environmental Law*, 31 *Boston College Environmental Affairs Law Review* (2004), 591 et seq..

² VOSSKUHLE op cit 9 supra, 192; SCHMIDT-JORTZIG, *Der Grundsatz der Wirtschaftlichkeit - Verfassungsrechtliche Determinanten*, in Butzer, Wirtschaftlichkeit durch Organisations-und Verfahrensrecht, Vortrage beim Symposium anlässlich des 65. Geburtstags von Prof. Dr. Friedrich E. Schnapp in Bochum, Berlin 2004, 17 et seq.; GAENTZSCH, *Gesetzmafügkeit und Wirtschaftlichkeit der Verwaltung: Beifit oder vertragt sich das?*, *Die offentliche Verwaltung* 1998, 952 et seq.

³ VOSSKUHLE op cit 9 supra, 193; comp. PETERS, *Die Ausfullung von Spielraumen der Verwaltung durch Wirtschaftlichkeitserwagungen*, *Die offentliche Verwaltung* 2001, 749 et seq..

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

1. analytical - empirical

as it is demonstrated by:

- the expansion of the economic analysis into areas of Budgetary¹, Public Service² and Administrative Procedural Law;³
 - the constitutional consolidation of the economy principle;⁴
 - the need to achieve the goals of the social state;
 - the application in writing of the proportionality principle to restrictions of individual rights by legislative and administrative measures. The proportionality test and principle of equal treatment are applied primarily in order to treat questions referring to weighing up interest⁵ by forming administrative decisions; that has led to surveys about the theoretical connection of proportionality to economic analysis.⁶

2. normative

A comparison between Constitutional Law and economic evaluations could be only presumed, if the economic view was at the same time constitutionally justified. Such estimation could probably result from

¹ RISCHER, *Finanzkontrolle staatlichen Handelns. Wirtschaftlichkeit und Sparsamkeit als Prüfungsmastabe*, Heidelberg 1995.

² BATTIS, *Hergebrachte Grundsätze versus Okonomismus: Das deutsche Beamtenrecht in der Modernisierungsgefalle?*, *Die Öffentliche Verwaltung* 2001, 309 et seq.

³ WEISE, *Genehmigungsverfahren. Zwischen Markt und Norm* and GROSSEKETTLER, *Flexibilisierung von Genehmigungsverfahren, Transaktionskosten und Koordinationseffizienz in dynamischer Sicht*, in Schmidtchen/Schmidt-Trenz, *Vom Hoheitsstaat zum Konsensualstaat. Ökonomische Analyse der Flexibilisierung von Genehmigungsverfahren*, Baden-Baden 1999, 31 et seq. and 47 et seq.

⁴ CHRISTONAKIS, *Das verwaltungsprozessuale Rechtsschutzinteresse*, Berlin 2004, 141 et seq.

⁵ Comp. HALLER, *Die Verrechnung von Vor- und Nachteilen im Rahmen von Art. 3 Abs. 1 GG. Eine Untersuchung zur Kompensation von Grundrechtseingriffen*, Berlin 2007, 264 et seq.

⁶ See FUHR, *Ökonomische Effizienz und juristische Rationalität. Ein Beitrag zu den Grundlagen interdisziplinärer Verständigung*, in: Gawel, *Effizienz im Umweltrecht*, 2001, 157/201 et seq..

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

an examination of the appropriateness of restrictive measures for the individual liberties.

Examining this parallelism would often prove to be inappropriate, since the mesh of applicable rules contains complex evaluations of the legislator and specialisations of certain constitutional principles.

In most fields of Public Law, except for - mainly - Public Procurement Law, the processes of evaluating competing interests cannot be replaced (or even supplemented) by numerical formulas, indicators, etc since, this way, the problem of promoting rationality would be simply removed, as well as the transformation of criteria into numerical data should be based on concrete assessments.¹

Furthermore, particularly the regulating fields of individual rights appear to be susceptible to subordination by economic categories only under severe restrictions. *Thus, the fact that considerable social sources invested in public health are likely to be saved if obligatory genetic diagnostics were applied, cannot lead to weighing a claim of economic thought against human dignity.*²

IV. Favourable Circumstances for the Reception of Efficiency

Conflicts of evaluative judgments considering natural sciences and technology, for whose subordination in the legal order, no criteria have been developed.

The public legal order produces ever more rules of a programmatic nature, and final - non conditional - juridical structure.³

The Economic Theory of Constitution, having as an object the human rational behaviour from the point of view of Economics, gives the

¹ HOFMANN, *Abwägung im Recht. Chancen und Grenzen numerischer Verfahren im Öffentlichen Recht*, Tübingen 2007.

² LINDNER, Franz Josef, *Rahmenbedingungen einer ökonomischen Theorie des Öffentlichen Rechts*, *Juristenzeitung* 2008, 957 et seq..

³ SCHMIDTCHEN, *Effizienz als Rechtsprinzip*, *Jahrbuch für Nationalökonomie und Statistik* 217/II (1998), 251/261.

possibility to control the actual achievements by the efforts of the executive to determine and promote the public interest by means of public law.¹

B. Arguments for Removing the Prior Restraint from Subordinating the Economic Efficiency in Legal Significance

Lawyers react sensitively to the demand on economic rationality.² On the other hand, for some theoreticians, Economics takes a role as a reference science for Public Law.³ On this basis, the following aspects in common can be primarily defined:

- the reference of efficiency regarding the relation of means to the goal is comparable to the structure of the proportionality test (see II 1 c, d);
- its method to evaluate legal interests is comparable;⁴
- there is a need to make the administrative control of expediency juridical;
- augmentative tendency to rationalize the legal order⁵ common historical roots in the thought of Enlightenment with the require-

¹ KIRCHGASSNER, *Okonomische Theorie der Verfassung*, in Mastronardi/Taubert, *Staats- und Verfassungstheorie im Spannungsfeld der Disziplinen*, Archiv für Rechts- und Sozial-philosophie [ARSP], Beiheft 105, Stuttgart 2006, 75 et seq.

² For instance FEZER, *Aspekte einer Kritik an der economic analysis of law und am property rights approach*, Juristenzeitung 1986, 819 et seq. and *Nochmals: Kritik an der ökonomischen Analyse des Rechts*, Juristenzeitung 1988, 223 et seq..

³ LEPSIUS, *Die Ökonomik als neue Referenzwissenschaft für die Staatsrechtslehre?*, Die Verwaltung 32 (1999), 429 et seq..

⁴ Comp. LACHMAYER, *Effizienz als Verfassungsprinzip: eine Maxime für staatliches Handeln in Österreich?*, in *Recht und Ökonomik*, 44. Assistententagung Öffentliches Recht in Jena 2004, München 2004, 135/144.

⁵ MORLOK, *Vom Reiz und vom Nutzen, von den Schwierigkeiten und den Gefahren der Ökonomischen Theorie für das Öffentliche Recht*, in: Engel/Morlok, Tübingen 1998, 1/9; DENKHAUS, *Die neue Institutionenökonomik und das Governancekonzept - Zum Wandel der ökonomischen Theorie und ihren Implikationen für die Verwaltungsrechtswissenschaft*, in *Recht und Ökonomik*. 44. Assistententagung Öffentliches Recht, Jena 2004, München 2004, 33/36.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

ment to provide rational criteria for law and its application¹ legal nature of individual rights and goals determined by the public interest as *principles* (to be optimized);²

- advantages of Economics in favour of rationality as a decision forming method.³

C. Dogmatic Subordination of a Meta-legal Efficiency Term I. Normative

1. Equality

The compatibility test of a norm with the equality principle results in the evaluation of this norm questioning its objectivity.⁴ Arguments within the frame of objectivity can refer to the aspect of efficiency. However, this does not involve a restriction on the basic possibility of the legislator to develop in each special case an objective criterion of differentiation that is not necessarily the most economic one. This consequence is also reasonable, since in the opposite case, the criterion of differentiation and its control of application would be mixed up.

2. Protection of Individual Property Rights

When the state is in danger of imposing additional taxes in order to face the consequences of omitting saving resources, it is not to be examined if a public obligation for protection of individual rights, such as property

¹ WIEACKER, *Geschichtliche Wurzeln des Prinzips der verhältnismäßigen Rechtsanwendung*, in Festschrift für Robert Fischer, 1979, 867/878.

² ALEXY, *Theorie der Grundrechte*, Frankfurt a.M. 1985, 79 et seq., 143 et seq..

³ VAN AAKEN, "Public Choice" in *der Rechtswissenschaft. Zum Stellenwert der ökonomischen Theorie im Recht*, Baden-Baden 2003.

⁴ MARTINI, *Der Markt als Instrument hoheitlicher Verteilunglenkung, Möglichkeiten und Grenzen einer marktgesteuerten staatlichen Verwaltung des Mangels*, Tübingen 2008, 210 et seq.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

and the free development of personality are contravened, since the threat of infringements does not emanate from a third person.¹

However, wasting resources could be potentially considered as insufficiently concerning the procedural dimension of the above property rights that has as content the prevention of their restriction, so that it constitutes an infringement.

II. Analytical

1. Possibility of Structural Equivalence to Proportionality Principle

a) Terminology of Proportionality and Efficiency

In accordance to the expanded perception of the proportionality principle are measures that may be an extra burden on the citizen's interests or rights; however, they have caused a much more important economic advantage in comparison to the limitations of the enjoyment of the corresponding subjective interest or right. That means practically that *an improvement of the position of underprivileged groups (= avoidance of infringements) should not result in the deterioration of the goal-reaching level or the degree of burden on the position of others.*² *An obviously high administrative cost can be the reason for the authorities to deny access to administrative information (German Freedom of Information Law/ Informationsfreiheitsgesetz)*³

Efficiency and proportionality require rational evaluation in relations of means to goal. This is valid, because their application, on the one hand, is based on empirical estimation (is in effect for stages of suitability and necessity of the proportionality test), on the other hand, they

¹ GERSDORF, *Öffentliche Unternehmen im Spannungsfeld zwischen Demokratie und Wirtschaftlichkeitsprinzip. Eine Studie zur verfassungsrechtlichen Legitimation der wirtschaftlichen Beta-tigung der öffentlichen Hand*, Berlin 2000, 460 et seq..

² Comp. MEFIERSCHMIDT, *Ökonomische Effizienz und juristische Verhältnismäßigkeit - Gemeinsames und Trennendes*, in Gawel, *Effizienz im Umweltrecht*, Baden Baden 2001, 215; BIZER, *Die Ökonomik der Verhältnismäßigkeitsprüfung*, Sofia-Diskussionsbeiträge zur Institutionenanalyse, Nr. 99-1, 2000, <http://www.sofia-darmstadt.de/Downloads/Diskussionbeitraege/1999/1-99.pdf>

³ Section 1 paragraph 2 sentence 3 of the German Freedom of information Law / informationsfreiheitsgesetz.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

take place in relation of intense interaction (stage c of the proportionality test), provided that fulfilling one principle is not possible without the fulfilment of the other.

Efficiency and proportionality suggest methods of resolution of conflicts between objectives of administrative measures and decisions and allocated resources. Efficiency, as much as proportionality are terms without a core, they constitute methods to resolve the collision of justifying reasons to normative regulations with one another; methods to delimit an optimal distribution of resources among alternative ways of disposal.

They require an optimisation of the relation between expenses and goals. Hence they are turned to serve the rational action of a state in favour of individual rights being exercised.

Nevertheless, regarding their structure, they differ from each other. The proportionality presupposes the delimitation of competing goals in relation to the means that are to be chosen for seeking the goals; this it does not produce the goals in itself. The economic efficiency constitutes a goal to which the other goals are referred.

b) Suitability

An inadequate means is simultaneously not efficient, when the required resources do not bring profit, while they could be used for other, more profit promising alternatives.

c) Necessity

The proportionality, as much as the efficiency, seeks given objectives with the least possible disposal of resources and restriction of legal interests. A medium is characterized not necessarily, when it involves the same profit with higher cost in disposal of resources. If there are choices to be made, by using softer means, the objective in such a satisfactory way, that is to say they improve the position of somebody without their deteriorating the situation of another, then this means it is necessary and Pareto - efficient. *That is to say, in the new situation, there is increase of prosperity of a social unit without eliminating the prosperity of others.*

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

d) Proportionality stricto sensu

If the interests promoted by the legislative or administrative measure can be realised to weigh less than the legal interests that are limited, the cost of measure exceeds the profit by its application. The evaluative more important interest cannot be sacrificed for one less important. Consequently, the cost cannot be exaggerated above the benefit. The criterion Kaldor-Hicks¹ imposes the choice of this decision that it affixes the better relation between means of (cost, resources) and result of (profit, goal).²

2. *The Examination of Including the Administrative Cost in Taking Administrative Decisions*

Beyond the goals that are directly sought by a legislative or administrative measure, there are also inherent goals that are not obviously sought.³ A legislative or administrative measure is characterized as necessarily, even if it is a burden on subjective interests or rights, however, the final result, the assessment of putting a strain on the public with regards to the disposal of resources, is lower than in other cases of such measures.⁴

¹ According to this criterion, institutions or measures can be evaluated positively even if they do not treat preferentially all population groups; under the condition, the compensation of the damaged by the preferentially treated is possible.

² EIDENMULLER, *Okonomische Konzepte in der Rechtsanwendung*, in: *Rechtsfortbildung jenseits klassischer Methodik. Privatautonomie zwischen Status und Kontrakt, Privatrecht und Europa*, Jahrbuch Junger Zivilrechtswissenschaftler 1992, 11 et seq.; criticism by HUSTER, Stefan, *Rechte und Ziele. Zur Dogmatik des allgemeinen Gleichheitssatzes*, Berlin, 1993, 433 et seq.; KUBLER, *Vergleichende Überlegungen zur rechtspraktischen Bedeutung der okonomischen Analyse*, in: Ott/Schafer, *Allokationseffizienz in der Rechtsordnung. Travemunder Symposium zur Okonomischen Analyse des Rechts*, 23.-26. März 1988, Berlin / Heidelberg 1989, 293/299 et seq..

³ Comp. DECHSLING, *Das Verhältnismäßigkeitsgebot. Eine Bestandsaufnahme der Literatur zur Verhältnismäßigkeit staatlichen Handelns*, München 1989, 64 et seq..

⁴ Comp. DECHSLING op cit supra, 74.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

In accordance with the principle of proportionality, it is a measure that is defined as an extra burden on single citizen(s), however for the total it can have an important economic advantage concerning the use of the corresponding right (as this is limited by the particular measure) by more holders of the interest, that is to say, by the total of society.¹

Compensation means in this context nothing more than deciding among possibilities on the basis of balancing their respective pros and cons. This represents the modified Kaldor-Hicks criterion.

Contrary to the attitude above, a measure could be excluded as not necessary under application (of the conservative parameter) of the **Pareto** criterion, if an alternative measure existed so that it could offer some advantage only to which it might concern.²

The legislator fixes rules of priority for the evaluation of public and private interests that are the basic objects of regulations and also of the acceleration and simplification of the process³ in relation to juridical protection and the democratic principle in order to economise costs for investment work and serve principles established by investment laws on the ground of an explicit constitutional

¹ CLERICO, *Die Struktur der Verhältnismäßigkeit*, Baden-Baden 2001, 136 et seq..

² DAMMANN, *Materielles Recht und Beweisrecht im System der Grundfreiheiten*, Tübingen 2007, 316 et seq. CLERICO, op cit 40 supra, 132 et seq., proposes following rules of choosing the most efficient administrative means:

- priority of the normative provision;
- dependence of achievement of goals on the extent of reduction of the administrative cost;
- unimportant differences in the extent of an individual right infringement by the most efficient means in comparison to other means;

On the contrary, the efficiency of administrative measure is not crucial if:

- differences in the disposal of administrative resources are unimportant;
- the subjective right affected is important of for the development of the personality and potential civil rights and in general attendance and participation that refer to that right.

⁴² In order to study the cost categories in the administrative proceedings for an approval for an investment project, see VOßKUHLE, „*Ökonomisierung*“ des *Verwaltungsverfahrens*, *Die Verwaltung* 34 (2001), 349/356. See table 1.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

*command.*¹ From the relative provisions, it can be concluded that the administration is authorised to establish restitutive regulations by weighing up the conflicting principles. For instance, a violation of the procedural and formal requirements due to a default of an environmental check performance that is contained in the German Federal Building Code and concerns the development of a legally binding land-use plan in the expedite proceedings, shall not be regarded as seriously affecting the validity of the plan, if a preliminary environmental check is accomplished² and its result can be considered as comprehensible; in this case it is not crucial that every individual public agency affected should have participated.³ The aim in this respect is achieved with a restriction of access to Justice and moderation of sanctions because of the cancellation of rights of attendance.

D. Limits of Application of Efficiency in the Administrative Procedure

I. The Necessity to Create a Reception Platform

In the area of Public Law that is working on the basis of a pluralistic system of goals and principles, only a *formal* criterion of economic efficiency can be pre-summed.⁴ The essential economic criteria (Pareto, Kaldor-Hicks) can be used in this context for further individual analyses.

From the other point of view, the economic theory is supposed to make use of the theoretical broadness in order to include the principles of Public Law in its analysis. In this respect, the economic theories on efficiency should have at least a secondary, "serving" function in the administrative decision-making or measure-taking process.⁵

¹ See article 109 paragraph 2 of the German Basic Law, clearly defined in the Law to Support and Stabilize the Economic Growth (Gesetz zur Forderung der Stabilität und des Wachstums der Wirtschaft) in 1967.

² Section 13a paragraph 2 sentence 2 Nr. 2 of the German Federal Building Code.

³ Section 214 paragraph 3 of the German Federal Building Code [Baugesetzbuch, BauGB].

⁴ VAN AAKEN, op cit 31 supra, 315 et seq.

⁵ Convincing analysis by VAN AAKEN, op cit 31 supra, 288 et seq..

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

The equivalent with the legal values system, the formal criterion of efficiency, should be capable of referring to constitutional principles as value determinations of the contents of regulations.

In this case, the content of the - solely formal - efficiency rule in Public Law will be consumed in the formulation of the decision-making theory with rules for real consequences of the applicable regulations to be calculated, based on the evaluation of all the alternative regulations and practical solutions in connection with the corresponding legislative aims.

II. Restrictions Resulting from the Fundamental Operation of Efficiency as a Tool of the Legislator

The legislator has the competence to decide if and in which context he would recognize the efficiency and in which relation he would delimit it, as opposed to his actual pursuits, also because of his know-how and the administrative resources allocated to him.

Efficiency is a *local* principle, as it namely refers to Budgetary Law; consequently, it does not have a comprehensive importance for the legal order and does not have a claim to be achieved in the optimal degree, but only with the content to prevent the wasting of public resources as a total consequence of the individual regulations from which it is to be concluded.

In this case, efficiency operates as an indicator that is being used by the judge in order to search for the consequences that are connected with alternative contents of an administrative decision.

Due to its character as a local principle, efficiency is unable to influence the judge in choosing the most efficient alternative solution.¹

With the above mentioned point, the following issue is also relevant; to what extent the theory of Public Law as much as the science have suitable passage points for the economic thought in their working method.

As the science of Public Law does not influence its practical application so directly, it is limited to make suggestions of a juridical-civic

¹ EIDENMULLER, *Effizienz als Rechtsprinzip. Möglichkeiten und Grenzen der ökonomischen Analyse des Rechts*, Tübingen 1995.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

nature to the legislator after evaluating the usability of conclusions of economics within the Public Law system and the consequences of the possibility of adopting them.

Taking advantage of the preparatory work by the Public Law *science*, the *theory* could clarify the usability of the dogmatic tools of economics by processing their technical assimilation in Administrative Law, and, more concretely, in puncto exercise of administrative discretion. In this respect, there is here a correspondence to the above mentioned possibility for economic tools to contribute to the rationalization of each stage of the proportionality test.

III. The need to delimitate the efficiency in favour of distributive justice...

1. ...with the Principle of Social State

A distributive legal order that is based on the free market model and on the principle of the autonomy of preferences does not ensure a distribution of resources that corresponds to the principle of social state (= of fair distribution).¹ Rational balancing that is committed to purely economic goals should be replaced by a balancing act based on evaluative judgements.

Decisions concerning global economic categories should consequently be based on non-individual cost-benefit comparisons; therefore, on a wider base of information than Paretianian economy.

Thus, a system of mixture of elements of efficiency and distributive justice can be proposed: the legislator depends on market mechanisms for the fundamental distribution of resources and regulates the configuration of undesirable developments by Public Law systems of distribution (tax and social insurance), that are not, anyhow, neutral to economic efficiency.

¹ TONTRUP, *Okonomik in der dogmatischen Jurisprudenz*, in ENGEL, *Methodische Zugänge zu einem Recht der Gemeinschaftsgüter*, Baden-Baden 1998, 41 et seq..

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

2.... with Individual Rights

Utilitarianism and efficiency do not set limits on the priority of preference autonomy, which is, in turn, based on the free development of personality, risk-taking, thus, its grounds itself.¹ The individual rights that are classified as belonging to the status negativus (life and physical integrity, freedom of expression, caution, which define a sphere of freedom, the content of which is to be found in their value itself that is determined without any (cross-)correlation with any economic profit), when they are secured with law under protest or without even such a protest, can be practically limited only by single efficiency aspects as an element of differentiation when making choices of social resources distribution (guarantee of health protection, basic life benefits).

If such decisions refer to the right of participation in economic life, competition etc., the distribution of resources on the basis of efficiency criteria contradicts the occupational freedom/right less, as less limited the danger for the individual sphere appears to be (as less, that is to say, the danger can concern the distribution of possibilities of developing the personality and some guarantee of equality of opportunities). *For instance, the catering of population with drinkable water cannot be solved by the price mechanism.*

IV. Because of Restrictions Resulting from the Principle of Legality in View of a Subordination of Efficiency in Administrative Law

Criteria of efficiency that can be consented to their given application can be useful as evaluation methods by the choice among several alternative contents of an administrative decision (that seem to be permissible in view of the legislative program), provided that any commitment of the administration as an expression of the legality principle is not violated.²

¹ MARTINI op cit 32 supra , 252 et seq.

² NIEDOBITEK, *Rechtsbindung der Verwaltung und Effizienz des Verwaltungsverfahrens*, Die öffentliche Verwaltung 2000, 762/767 et seq.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

Such administrative obligations can be, depending on the characteristics of the applicable rule, material or formal.

In the last case, points of reference for the determination are *the internal configuration of process, abstract and technical terms, the administrative discretion, the hypothetical or final character of the legal program and the regulated mechanisms of conformity*.¹

After redressing an infringement of a regulation governing procedure, the position of the citizen should not be worse than the position he would have had if the process had reached its opportune stage without defect. In other words, *the disadvantages by the application of the provision should be restored. For this purpose, the administration should be considered as compelled, on the occasion of an a posteriori redressing of the procedural provision that had not been observed, at least to re-examine its initial decision.*

References

- [1] Ackermann/Heinzerling, *Pricing the Priceless: Cost-Benefit Analysis of Environmental Protection*, 150 *University of Pennsylvania Law Reviews* (2001/2002), 1553 et seq.
- [2] Ackermann Susan Rose, *The Economic Analysis of Public Law*, 1 *European Journal of Law and Economics* (1994), 53 et. seq.
- [3] ADLER, *Cost-Benefit Analysis, Static Efficiency, and the Goals of Environmental Law*, 31 *Boston College Environmental Affairs Law Review* (2004), 591 et seq.
- [4] Alexy, *Theorie der Grundrechte*, Frankfurt a.M. 1985, 79 et seq., 143 et seq.
- [5] Baer, *Schlüsselbegriffe, Typen und Leitbilder als Erkenntnismittel und ihr Verhältnis zur Rechtsdogmatik*, in Schmltdt-Afimann/Hoffmann-Rlem, *Methoden der Verwaltungsrechts-wissenschaft*, Baden-Baden 2004, 223 et. seq.
- [6] Battis, *Hergebrachte Grundsätze versus Okonomismus: Das deutsche Beamtenrecht in der Modernisierungsgefalle?*, *Die Öffentliche Verwaltung* 2001, 309 et seq.
- [7] Christonakis G., *Das verwaltungsprozessuale Rechtsschutzinteresse*, Berlin 2004, 141 et seq.

¹ NIEDOBITEK op cit supra, 768.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

- [8] Clerico, *Die Struktur der Verhältnismäßigkeit*, Baden-Baden 2001, 136 et seq.
- [9] Dahm, *Das neue Steuerungsmodell auf Bundes- und Landerebene sowie die Neuordnung der öffentlichen Finanzkontrolle in der Bundesrepublik Deutschland*, Berlin, 2004.
- [10] Dammann, *Materielles Recht und Beweisrecht im System der Grundfreiheiten*, Tübingen 2007, 316 et seq.
- [11] Dechsling, *Das Verhältnismäßigkeitsgebot. Eine Bestandsaufnahme der Literatur zur Verhältnismäßigkeit staatlichen Handelns*, München 1989, 64 et seq.
- [12] DENKHAUS, *Die neue Institutionenökonomik und das Governancekonzept - Zum Wandel der ökonomischen Theorie und ihren Implikationen für die Verwaltungsrechtswissenschaft*, in *Recht und Ökonomik*. 44. Assistententagung Öffentliches Recht, Jena 2004, München 2004, 33/36.
- [13] EIDENMULLER, *Effizienz als Rechtsprinzip. Möglichkeiten und Grenzen der ökonomischen Analyse des Rechts*, Tübingen 1995.
- [14] Engel/Morlok, *Öffentliches Recht als ein Gegenstand ökonomischer Forschung*, Tübingen 1998.
- [15] FEHLING, Michael, *Kosten-Nutzen-Analysen als Maßstab für Verwaltungsentscheidungen*, *Verwaltungsarchiv* 95 (2004), 443 ff.
- [16] FEZER, *Aspekte einer Kritik an der economic analysis of law und am property rights approach*, *Juristenzeitung* 1986, 819 et seq. and *Nochmals: Kritik an der ökonomischen Analyse des Rechts*, *Juristenzeitung* 1988, 223 et seq..
- [17] FUHR, *Ökonomische Effizienz und juristische Rationalität. Ein Beitrag zu den Grundlagen interdisziplinärer Verständigung*, in: Gawel, *Effizienz im Umweltrecht*, 2001, 157/201 et seq..
- [18] GAENTZSCH, *Gesetzmäßigkeit und Wirtschaftlichkeit der Verwaltung: Beifit oder verträgt sich das?*, *Die öffentliche Verwaltung* 1998, 952 et seq.
- [19] GERSDORF, *Öffentliche Unternehmen im Spannungsfeld zwischen Demokratie und Wirtschaftlichkeitsprinzip. Eine Studie zur verfassungsrechtlichen Legitimation der wirtschaftlichen Beta-tigung der öffentlichen Hand*, Berlin 2000, 460 et seq..
- [20] GROPL, *Haushaltsrecht und Reform, Haushaltsrecht und Reform. Dogmatik und Möglichkeiten der Fortentwicklung der Haushaltswirtschaft durch Flexibilisierung, Dezentralisierung, Budgetierung, Ökonomisierung und Fremdfinanzierung*, Tübingen 2001, 329 et seq.;

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

- [21] GROPL, *Okonomisierung von Verwaltung und Verwaltungsrecht*, *Verwaltungsarchiv* 93 (2002), 459 et seq.
- [22] HALLER, *Die Verrechnung von Vor- und Nachteilen im Rahmen von Art. 3 Abs. 1 GG. Eine Untersuchung zur Kompensation von Grundrechtseingriffen*, Berlin 2007, 264 et seq.
- [23] HOFMANN, *Abwägung im Recht. Chancen und Grenzen numerischer Verfahren im Öffentlichen Recht*, Tübingen 2007.
- [24] HUSTER, Stefan, *Rechte und Ziele. Zur Dogmatik des allgemeinen Gleichheitssatzes*, Berlin, 1993, 433 et seq.;
- [25] KIRCHNER, *Okonomische Theorie des Rechts*, Berlin / New York 1997;
- [26] KIRCHNER, *The Difficult Reception of Law and Economics in Germany*, 11 *International Review of Law and Economics* (1991), 277 et seq.;
- [27] KIRCHGASSNER, *Okonomische Theorie der Verfassung*, in Mastronardi/Taubert, *Staats- und Verfassungstheorie im Spannungsfeld der Disziplinen*, *Archiv für Rechts- und Sozialphilosophie [ARSP]*, Beiheft 105, Stuttgart 2006, 75 et seq.
- [28] KUBLER, *Vergleichende Überlegungen zur rechtspraktischen Bedeutung der ökonomischen Analyse*, in: Ott/Schafer, *Allokationseffizienz in der Rechtsordnung*. *Travemünder Symposium zur Ökonomischen Analyse des Rechts*, 23.-26. März 1988, Berlin / Heidelberg 1989, 293/299 et seq..
- [29] LACHMAYER, *Effizienz als Verfassungsprinzip: eine Maxime für staatliches Handeln in Österreich?*, in *Recht und Ökonomik*, 44. Assistententagung Öffentliches Recht in Jena 2004, München 2004, 135/144.
- [30] LADEUR, *Die rechtswissenschaftliche Methodendiskussion und die Bewältigung des gesellschaftlichen Wandels. Zugleich ein Beitrag zur Bedeutung der ökonomischen Analyse des Rechts*, *Rabels Zeitschrift für Ausländisches und Internationales Privatrecht* 64 (2000), 60/93.
- [31] LEPSIUS, *Die Ökonomik als neue Referenzwissenschaft für die Staatsrechtslehre?*, *Die Verwaltung* 32 (1999), 429 et seq.
- [32] LINDNER, Franz Josef, *Rahmenbedingungen einer ökonomischen Theorie des Öffentlichen Rechts*, *Juristenzeitung* 2008, 957 et seq.
- [33] MARTINI, *Der Markt als Instrument hoheitlicher Verteilungslenkung, Möglichkeiten und Grenzen einer marktgesteuerten staatlichen Verwaltung des Mangels*, Tübingen 2008, 210 et seq.
- [34] MORLOK, *Vom Reiz und vom Nutzen, von den Schwierigkeiten und den Gefahren der Ökonomischen Theorie für das Öffentliche Recht*, in:

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

Engel/Morlok, Tübingen 1998, 1/9; *Rechtsanwendung*, in Festschrift für Robert Fischer, 1979, 867/878.

[35] NIEDOBITEK, *Rechtsbindung der Verwaltung und Effizienz des Verwaltungsverfahrens*, Die öffentliche Verwaltung 2000, 762/767 et seq..

[36] ORTMANN, *Die Finanzwirksamkeit verfassungsgerichtlicher Entscheidungen im Spiegel der Rechtsprechung des Bundesverfassungsgerichts*, Baden-Baden 2007, 564 et seq.

[37] PETERS, Die Ausfüllung von Spielräumen der Verwaltung durch Wirtschaftlichkeitserwägungen, Die öffentliche Verwaltung 2001, 749 et seq.

[38] RISCHER, *Finanzkontrolle staatlichen Handelns. Wirtschaftlichkeit und Sparsamkeit als Prüfungsmassstäbe*, Heidelberg 1995.

[39] SCHMIDTCHEN, *Effizienz als Rechtsprinzip*, Jahrbuch für Nationalökonomie und Statistik 217/II (1998), 251/261.

[40] SCHMIDT-JORTZIG, *Der Grundsatz der Wirtschaftlichkeit - Verfassungsrechtliche Determinanten*, in Butzer, Wirtschaftlichkeit durch Organisations- und Verfahrensrecht, Vorträge beim Symposium anlässlich des 65. Geburtstags von Prof. Dr. Friedrich E. Schnapp in Bochum, Berlin 2004, 17 et seq.;

[41] STUER/SPREEN, *Emmissionszertifikate. Ein Plädoyer zur Einführung marktwirtschaftlicher Instrumente in die Umweltpolitik*, *Umwelt- und Planungsrecht* 1999, 161 et seq.

[42] TONTRUP, *Ökonomik in der dogmatischen Jurisprudenz*, in ENGEL, *Methodische Zugänge zu einem Recht der Gemeinschaftsgüter*, Baden-Baden 1998, 41 et seq.

[43] VAN AAKEN, "Public Choice" in der Rechtswissenschaft. *Zum Stellenwert der ökonomischen Theorie im Recht*, Baden-Baden 2003.

[44] VOßKUHLE, *Das Kompensationsprinzip. Grundlagen einer prospektiven Ausgleichsordnung für die Folgen privater Freiheitsbetätigung - Zur Flexibilisierung des Verwaltungsrechts am Beispiel des Umwelt- und Planungsrechts*, Tübingen 1999;

[45] VOßKUHLE, *Methode und Pragmatik im Öffentlichen Recht. Vorüberlegungen zu einem differenziert-integrativen Methodenverständnis am Beispiel des Umweltrechts*, in Bauer/Czybulka/Kahl/Vosskuhle, *Umwelt, Wirtschaft und Recht. Wissenschaftliches Symposium aus Anlass des 65. Geburtstages von Reiner Schmidt*, Tübingen 2002, 171/189.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

[46] WEISE, *Genehmigungsverfahren. Zwischen Markt und Norm* and GROSSEKETTLER, *Flexibili-sierung von Genehmigungsverfahren, Transaktionskosten und Koordinationseffizienz in dynamischer Sicht*, in Schmidtchen/Schmidt-Trenz, *Vom Hoheitsstaat zum Konsensualstaat. Okonomische Analyse der Flexibilisierung von Genehmigungsverfahren*, Baden-Baden 1999, 31 et seq. and 47 et seq.

[47] WIEACKER, *Geschichtliche Wurzeln des Prinzips der verhältnismäßigen Rechtsanwendung*, in Festschrift für Robert Fischer, 1979, 867/878.

[48] WIEACKER, *Geschichtliche Wurzeln des Prinzips der verhältnismäßigen* EIDENMULLER, *Okonomische Konzepte in der Rechtsanwendung*, in: *Rechtsfortbildung jen-seits klassischer Methodik. Privatautonomie zwischen Status und Kontrakt, Privatrecht und Europa*, Jahrbuch Junger Zivilrechtswissenschaftler 1992, 11 et seq.;

Table 1: Cost categories in the administrative proceedings for an approval for an investment project,

	Costs of investor	Costs of the Administration	Costs of third persons	Costs of the Social total
costs because of passing time	delay (likely profits from the fast entry in the market, interests, rise of material prices)	- reduction in the degree of administration - acceptance	due to damages (for example: the issuing of authorisation of waste storage denied)	damages
procedural costs	- preparatory work for investment - preparation of application (consultations, charges/dues) - participation in the procedure	- realisation of process - personnel, material resources	- information/briefing - participation - judicial protection	- information/briefing - participation - mobilisations and administrative objections
Costs	Adaptation	- interventions - control	- damages - interventions - control	social cost

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) – 2010

Galati University Press, ISSN 2065 -569X

INNOVATION ACTIVITIES IN POLAND

Ph.D. Krystyna Leszczewska

College of Computer Science and Business Administration in Łomża,
Poland ¹

Ph.D. Agnieszka Bitkowska

University of Finance and Management in Warsaw, Poland ²

Abstract

The success of accompany on a competitive market depends on its ability to adapt to the continuous changes in the environment A conviction of that implementation of innovation is most increasingly reflected in the activities of Polish companies. This article analyses the level of innovation in the Polish economy, as well as the situation of companies operating in Poland.

Keywords: technological innovation, gained knowledge, strategy of the company.

JEL Classification: D83, D82.

Introduction

The change is the foundation for the company development, it is inevitable and unavoidable. Companies should be innovative to respond to

¹ Vice Rector for Didactics and Students' Affairs, research interests: entrepreneurship, in particular small and medium-sized enterprises and their role in economic development, the author of 40 scientific publications in the field of enterprise management, e-mail: k.leszczewska@wp.pl

² Lecturer at the University of Finance and Management in Warsaw and Higher School of Ecology and Management, scientific interests: management processes, restructuring of companies, knowledge management, innovation; the author of many articles in Polish and English in the field of process approach in enterprises and the restructuring in the telecommunication sector. e-mail: bitkowska@vizja.pl

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

the changes in the market, adapt to the customers' requirements and be competitive. Ch. Freeman said: "not to introduce innovations means dying" (Freeman Ch., 1982).

Through innovation, the company can create new consumer needs. Innovation is an essential condition for increasing the attractiveness of goods and services, which entails the development of the market and export, and thus determines the company's position in the environment.

The essence of innovation

The term 'innovation' is understood broadly. Innovation is defined by economists, researchers and scientists. Innovation is commonly understood as something new and different from past practices, it is associated with the change for the better. The concept of innovation was introduced in economic sciences in 1911 by Joseph Schumpeter and his definition of innovation is regarded as a classic.

According to Schumpeter, innovation is the introduction of new solutions to the practice leading to the emergence of more and more efficient economic structures. Technological innovation was primarily the subject of his considerations.

J. Schumpeter approached the concept of innovation in five cases (Schumpeter J., 1960):

- a) introducing a new product unknown to the consumers or a new brand of a commodity;
- b) introduction of new production methods that have not been yet applied in practice in the industry;
- c) opening a new market to which a certain type of the production was not previously introduced;
- d) acquiring a new source of raw materials or semi-finished products, regardless of whether the source has already been there, or has to be created;
- e) carrying out new organization of some industry, for example, a monopoly or breaking it.

The interest in the problems of innovation has evolved over the years along with the changes in the global economy. During the 80-s and

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

90-s of the twentieth century, when there was intensive development of services, the scope of the concept of innovation significantly widened.

Contemporary definitions of innovation can be interpreted in a broad or narrow sense. Innovation in a broad sense means any change in production involving the assimilation of the gained knowledge, while innovation in a strictly defined sense means a change in manufacturing methods and products (in the organization of the production process). The group of authors' interpretative innovation in broad terms are: J. Schumpeter, AJ Harm, E. Hagen, J. Parker, P.R. Whitfield, P. Drucker. Innovation in narrower sense is defined by such authors as: S. Kuznets, Ch. Freeman, E. Mansfield (Kozioł K., 2007).

Sources and determinants of innovation

Sources of innovation can be considered at the macro-, meso- or micro economic levels. All knowledge and information which initiate innovative activities of enterprises, encourage the development of innovation in the region or state and play an important role in innovation processes taking place in the economy (Wysokińska Z., 2004).

A traditional division of sources of innovation leads to identifying the following types of innovation:

a) from the perspective of an individual country:

- internal: its own scientific research and inventive activities
- external: licenses, know-how, import of modern machinery and equipment, common scientific and production projects

b) from the perspective of enterprise an enterprise:

- internal: activity in the field of R & D, carrying marketing research of domestic and foreign market, stimulating the creativity of employees and management;

- external: scientific research of universities, advice given by consultancy firms banchmarking, fairs and exhibitions, the transfer of employees.

Peter F. Drucker distinguished seven sources of opportunities for innovation (Drucker P., 1992):

a) In an organization or industry:

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

- Unexpected success, unexpected failure, and unexpected external event;
 - Clash between reality and expectations;
 - Innovation resulting from the need to process;
 - Changes in the industry structure or market structure;
- b) On the surroundings of an organization or industry:
- Demography (changes in the population);
 - Changes in perception, moods and values;
 - New knowledge.

Robert D. Hisrich and Michael P. Peters suggest five sources of new ideas (Niedzielski P., Markiewicz J., Rychlik K., Rzewuski T.,2007):

- Consumers;
- Existing businesses;
- Distribution channels;
- Government decisions;
- Research and development.

Innovative activity is dependent on many factors. The literature describes a number of different models of circumstances. In general, these are models with a selective approach to the issue. They refer to external and internal factors. The subjects are more likely to impact on internal factors.

From the point of view of an economic subject, one can distinguish between four groups of factors affecting the innovative companies:

- Environmental factors;

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

- Organizational systems;
- Social influence;
- Psychological conditionings.

Innovation processes must be properly managed and closely related to the mission and strategy of the company and driven by the market and technological progress, and the company must become an intelligent organization, learning, in which knowledge and ideas are treated as strategic resources (Otto J., Stanisławski R., Maciaszczyk A., 2007).

Companies can not be content with occasional introduction of innovation, but must create a long-term framework for various activities fostering innovation and the appropriate organizational culture facilitating the implementation of new products. Successful innovation is not usually achieved by individuals or departments, but by the company as a whole.

Assumptions of the innovative economy

At its heart there are mutual relations in the cycle of innovation processes, the centre of which is an enterprise and its needs (see Figure 1). Innovations are reflected in the introduction of new products and services in enterprises, so the cycle of actions concerns the enterprise and its immediate surroundings. The first axis - Human resources for a modern economy - includes actions connected with the development of human resources capable of developing the knowledge-based economy. The human beings and their acceptance of novelties, as well as their creativity, constitute the key to development through innovation (Kierunki zwiększania innowacyjności gospodarki na lata 2007-2013, 2006)

The second direction - research activity is oriented to the needs of the economy. The results of positive tests should be completed in turn covered by legal protection. Important for developing modern knowledge-based economy is the protection of intellectual property, whose role was emphasized in the third line of action. The next step in the process of innovation is to get capital, supporting the projects.

The second axis - research activity-aims at satisfying the needs of the economy. The results of positively completed research should then gain legal protection, so the protection of intellectual property plays a significant

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

role in the development of a modern knowledge economy, a fact that has been emphasised in the third axis. The next stage of the innovation process is the procedure whereby funding for the implementation of initiatives is obtained. The capital for innovation is then the fourth axis. This is extremely important, as the lack of financial means constitutes one of the main barriers to the implementation of innovation, and consequently results in a low level of innovation performance on the part of the Polish economy. (Kierunki zwiększania innowacyjności gospodarki na lata 2007-2013, 2006)

Infrastructure for innovation constitutes the basis, as well as the background, for the implementation of axes established previously. It provides training, consulting and access to new information technologies, as well as facilitates co-operation between entrepreneurs, increases co-operation between the R+D sector and the economy, and the transfer of new technologies and organisational solutions. The country's institutional and legal system and the infrastructure for innovation constitute the key elements of the National Innovation System. They specify the conditions which need to be fulfilled if there is to be efficient implementation of all the specified strategic areas, including the mechanisms for the co-ordination and implementation of the innovation policy provided by public institutions. (Kierunki zwiększania innowacyjności gospodarki na lata 2007-2013, 2006)

Innovativeness of Polish economy

Innovativeness of the Polish economy and Polish companies measured by various standard indicators such as the amount of investment in R & D, the number of innovative companies, the number of patents, the share of export of high-tech goods etc., is relatively low.

Although the economy of Poland does not qualify for the knowledge-based economies (GOW, knowledge-based economy), it did not reach a minimum level of the development of the sectors - media GOW28 - it should be pointed out that the high dynamics of development processes prove its significant potential.

Among the factors determining the level of innovation of the Polish economy there are the low level of employment in sectors which are the carriers of GOW (9.3% 29 in 2000) - significantly lower than in many EU Member States, one of the lowest participation rates of spendings on R & D

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

in the EU, insufficient economic and scientific cooperation, low number of implementations of new technologies and low number of new businesses created on the basis of new technologies (Przedsiębiorczość w Polsce w 2007, 2007)

According to the European Innovation Scoreboard 2006, the level of innovation in the Polish economy went up. Poland was promoted from the group of "losing ground" countries (loosing ground) to the group of catching up countries, which are among others, The Czech Republic, Lithuania, Latvia, Portugal, Greece, Slovenia and Bulgaria. This group is characterized by particularly high rate of imaging the dynamics of aggregate level of innovation - Summary Innovation Index (SII).

In the case of Poland, improvement was observed in 16 out of 25 SII sub-indexes, that is:

- more than 3-fold increase in the "Number of fixed links online (with capacity of at least 144 Kbit / s) per 100 inhabitants: from 0.5 to 1.9;
- more than 4-fold increase in the "Participation (%) of enterprises receiving public assistance with innovation in the total number of enterprises" of 0.7 to 3.1;
- more than 2-fold increase in the "Participation (%) of the sale of new or upgraded products for the market in total sales of enterprises": from 3.4 to 8.1;
- 3-fold increase in the "Number of patents granted by U.S. PTO per one million inhabitants: from 0.4 to 1.2;
- 5-fold increase in the "Number of new community industrial designs per one million of inhabitants: from 5.2 to 25.

Based on the European Innovation Scoreboard (EIS) 2008, Poland, like in previous years, was included in the group of catching up countries, characterized by the Summary Innovation Index (SII Summary Innovation Index) lower than the European Union average but higher than the EU average growth of this indicator. (see Figure 2). In the group of catching up countries Poland is placed a position behind Malta, Hungary and Slovakia

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

and before Lithuania, Romania, Latvia and Bulgaria. (EUROPEAN INNOVATION SCOREBOARD 2008, 2009)

Malta, Hungary, Slovakia, Poland, Lithuania, Romania, Latvia and Bulgaria are the catching-up countries with innovation performance well below the EU average. All of these countries have been catching up, with the exception of Lithuania. Bulgaria and Romania have been improving their performance the fastest.

Despite the low overall level of Innovation Index (SII) in Poland, the rate of increase of this ratio is higher than the EU average. Figure 3 illustrates this. The vertical axis represents the absolute value of overall Innovation Index (SII) in 2008, while the horizontal axis - the average annual growth rate of this indicator.

Compared to the previous report of the European Innovation Scoreboard (EIS) 2008, it should be noted that the following indicators have improved in Poland:

- Increase in the "student share per 100 inhabitants (in % of the population aged 25-64 years from 4.7 to 5.1,
- Increase in the "Venture capital as % of GDP" (Venture capital as % of GDP) from 0.001 to 0.017,
- Increase in the "innovations introduced in small and medium-sized enterprises (SMEs) '(SMEs innovating in-house) from 13.8 to 17.2,
- Increase in the "Number of new community trademarks per one million population" (Community trademarks per one million population) from 24.7 to 33.2.

As outlined in the European Innovation Scoreboard (EIS) 2008 in the last 5 years, a major condition of improving the level of innovation in Poland included mainly the following factors (see Table 1):

- The groups "Human Resources" in particular the increase in the number of persons having a doctoral degree in Science and Engineering and Social Sciences and Humanities per 1000 inhabitants aged 25 -- 34 years) from 0.53% in 2001 to 0.86% in 2006
- Groups of indicators related to the protection of intellectual property, referred to as "Throughputs", in particular an increase in

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

the number of: patent applications in the European Patent Office (European Patent Office - EPO) per one million population from 1.5 in 2001 to 3.1 in 2006, the new community trademarks per one million population "(Community trademarks per one million population) from 0.2 in 2001 to 33.2 in 2006, and the new community industrial designs per one million population" (Community industrial designs per one million population) from 2.0 in 2002 to 45.5 in 2007

It should be noted that in comparison with the other EU Member States, the Polish economy has developed very rapidly (over the last 4 years Poland noted the regular annual growth of the value of aggregate SII), however in terms of value of the SII index takes Poland penultimate place among the countries under study.

Although Polish economy developed rapidly compared to the "EU-15", it still has, in terms of SII rate, penultimate place among the countries under study. The significant gap between the level of innovation of the Polish economy and economy of developed countries shown by surveys carried out by the World Bank (The World Bank: Public financial support for commercial innovation, 2006)

World Bank's methodology for measuring the level of innovation of the economies in Europe and Central Asia is based on the Knowledge Assessment Methodology. The evaluation of the World Bank agrees to a large extent with the results obtained in a study conducted by the OECD. According to the Knowledge Assessment Methodology, Poland occupies the 26th place out of 31 countries under study (*Przedsiębiorczość w Polsce w 2007*, 2007)

R & D in Poland

The allocation of regional expenditure on R & D in Poland reflects the scientific and economic potential of each region. Large academic and industrial centers are characterized by high rates of R & D, while the agricultural areas by the lowest. Moreover, in areas with the lowest rates of R & D, there is rapid aging of the population and low mobility, while the regions with the highest population rates are dominated by the young. (Chojnicki Z., Czyż T.)

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

One can notice a clear dominance of the Mazowieckie voivodship. Voivodships with the lowest expenditure on research and development in this respect per one inhabitant Swietokrzyskie, Opole and Lubusz (see Figure 4). This uneven distribution of research and development potential affects the limited access to high technology companies in less developed areas. This situation is particularly disadvantageous in light of the so-called spillover effect that is the spread of the added value created by R & D investment not only in the context of one person but also in the area of their socio-economic environment.

Consequently, this causes the enlargement of the gap between more developed regions and peripheral regions in the country. Poland economy, according to the criteria used in the world, is not innovative. The share of expenditure on research and development (R & D) in gross domestic product (GDP) ranges us in one of the last places in the European Union. (see Figure 5)

Poland is not a developing country based on research and development (see Table 2, Table 3, Table 4). It is demonstrated not only by the share of spending on R & D in GDP, but also by employment in R & R. Poland is the fourth from the end in the EU in terms of the number of workers employed in the field of R & D (excluding the Austria and Britain, for which Eurostat does not provide data). Behind Poland there are only Cyprus, Bulgaria and Romania. (see Figure 6)

Analyzing these two indicators, EU countries can be divided into those that have a strategy for building a competitive position on innovation created primarily on the basis of its own R & D facilities (such as Luxembourg, Germany, Finland, Sweden) and those in which the effects of the use of purchased research results play an important role (such as Portugal, and most of new EU Member States) (Starczewska-Krzysztozek M., 2008)

In Poland, relatively few employees are employed in the area of R & D (public and private). Furthermore, expenditures on research and development represent a small proportion of gross domestic product. Poland does not support the creation of its own R & D back-end; expenditures on the purchase of innovative solutions are small.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

Innovations in Polish enterprises

Innovative companies in Poland are characterized by great diversity, which, among others, increases with the size of the company and depends on the industry in which the firm operates as well as the structure of ownership (big foreign companies have a relatively high level of innovation, but small domestic enterprises from low investment have few technical capabilities).

The innovation of enterprises positively affects and develops innovation across the entire economy, increasing its competitiveness and consequently leading to the growth in Gross Domestic Product (GDP). Simultaneously, the level of expenditure on R&D, which conditions the innovative character of enterprises is determined by the global level of the country's affluence reflected in the GDP index (Kierunki zwiększania innowacyjności gospodarki na lata 2007-2013, 2006)

According to the Central Statistical Office, innovative business activities include scientific (research), technical, organizational, financial and commercial (commercial) activities, whose purpose is to develop and implement new or significantly improved products and processes, but these products and new processes have to be considered new at least from the point of view of the company that introduces them.

Innovation activities may be conducted by the company itself in its own territory (inside the company, the so-called in-house innovation), or may involve the purchase of goods, services, including consulting services, or knowledge from external sources (sometimes referred to as the acquisition of external technology in the material or immaterial form).

An innovative company - as defined in the methodology of Oslo¹ - is a company that during the researched period (usually of three years) lauded at least one technical innovation (a new or significantly improved product or a new or significantly improved process).

An innovative company combines three key elements: it creates a new idea, implements it in practice, and finances its performance. An

¹ Oslo Methodology - Methodological guidelines for surveys of technical innovation in enterprises (Business Enterprise Sector) were published in an international handbook of methodology, called the Oslo Manual. It is a widely accepted international standard methodology currently used in all countries engaged in innovation surveys.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

innovative company can also be described as the company that is able and willing to continuously search for and use in practice the results of scientific research, new concepts, ideas or inventions. The innovative company creates, absorbs and uses new products or services, and is also prepared to continuously adapt to changes in the environment.

Looking at an innovative company in a more tangible way, it can be assumed that this is an organization that:

- conducts a wide range of research and development, or buys new products or technologies;
- spends a relatively high amount of money on this activity, systematically implements new scientific and technological ideas;
- represents a large potential for new products and technology products in the volume of production and services;
- constantly introduces innovations on the market.

In the years 2002-2004 innovative enterprises constituted 42% of all enterprises in the European Union (EU-27). In Germany 65% of all companies, in Austria - 53%, whereas in Denmark, Luxembourg and Ireland 52%, while in Poland, the share of innovative enterprises was and still is lower by half. They represent only 25% of all businesses [Eurostat, 2007, GUS, 2008]. 52% of companies operating in Poland are building their competitive position, on the basis of the price, and only 0.2% - offering innovative products and services. The tendency of the companies to introduce new solutions to the practice (such as the use of advanced manufacturing technology, modern management methods, expertise and skills, improving the quality of products and services) increases, but the scale of innovation is still low. (Starczewska-Krzysztozek M., 2008)

Empirical data show that innovativeness of companies is closely correlated to their size, i.e. to the increase in the size of the growing share of innovative enterprises in the group entities. Causes light to be found in a far better the availability of financial and human capital among the large entities.

In the years 2002-2004, 67% of large units, employing more than 249 workers, were innovative, while among small enterprises this share was of 17.7%. (Przedsiębiorczość w Polsce w 2007, 2007) According to the

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

study of the services sector, smaller entities devote a substantial proportion of their expenditures (without taking into account the investment) to the so-called "soft" infrastructure of the innovation process that is marketing and training, while larger entities do the opposite.

Such a situation should be linked to the type of projects undertaken, which in the case of larger companies are much more costly. Polish enterprises, especially SMEs, indicate as one of the main reasons for the limited resources for innovation the difficulty to obtain financing for more risky activities (implementation of innovative solutions). (Jasiński, 2006)

This is mainly due the fact that innovative activities are usually funded by the firm. The market and private equity / venture capital (PE / VC), which could be an additional source of funding, is not specially-developed in Poland, and you can talk about the problem of the equity gap, that is the lack of funds making relatively small investments during the early stage of company development.

The reasons for which Polish companies decide to introduce innovation are mainly as follows: improvement of the quality of products, opening new markets or increasing market share, widening the range of products. Other studies show that customers` forcing innovation is an important factor which makes businessmen increase expenses on innovation processes in the company. Additional reasons are the needs to reduce costs, increase efficiency, meet requirements of domestic competition as well as a desire to be the best. Innovation can also be forced by competitors and suppliers.

An unsatisfactory state of innovation of Polish enterprises forced the government to take measures to promote innovative actions among enterprises. They are set out in the strategy paper entitled, "Guidelines for Increasing Innovation Economy in the years 2007-2013", which includes assessment of innovativeness of the Polish economy and recommends lines of action whose implementation will enable the development of the knowledge economy in Polish realities. The proposed actions should mostly affect the GOW sector, such as education, science and research, branches of industry so-called high technology, business services associated with GOW and information society services sector.

The document points out that, taking into account level of development and structure of the Polish economy, the appropriate strategy

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

for the Poland to catch up with GOW is the simultaneous implementation of four ways of development:

- use of new technologies to increase competitiveness of traditional sectors;
- creation of new businesses based on innovative solutions and the development of small and medium-sized enterprises through the use of modern technology and methods of knowledge management;
- stimulation of development of cooperation between firms and institutions in the business environment in terms of innovative activity;
- motivation of large companies to pursue and implement the results of research.

The strategic objective of the *Strategy for increasing the innovativeness of the economy* is defined as follows: the growth of the innovativeness of enterprises in order to maintain the fast development of the economy and to create new, better jobs. (Kierunki zwiększania innowacyjności gospodarki na lata 2007-2013, 2006)

This aim will be achieved by implementing the following guidelines:

1. Humans resources for a modern economy;
2. Research for the benefit of the economy;
3. Intellectual property for innovation;
4. Capital for innovation;
5. Infrastructure for innovation. The essence of the above-mentioned directions is the process of mutual cycle of innovation processes which focus on the company and its needs.

Strengthening of attitudes among the innovative entrepreneurs will be encouraged by:

- Improving the system of innovation management at the national level through the construction of long-term planning in terms of

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

innovation as well as improving institutional coordination in the creation and implementation of innovation policy;

- Strengthening a scientific and technological base by focusing public funding on institutions and organizations with the greatest potential for successful research;
- Developing a system of incentives for implementation of business research and development by businessmen;
- Promoting the protection of industrial property rights;
- Creating incentives for researchers to undertake further training and cooperation with business;
- Developing a network of innovation services (especially the National Network for Innovation);
- Supporting the development and dissemination of the idea of clusters` formation, technology platforms and other cooperative links between entrepreneurs and between enterprises and research units focused on developing innovativeness;
- Stimulating innovation through a wider use of information and communication technology (ICT) and investment in these technologies.

Summary

The basic condition for strengthening the innovative attitudes among entrepreneurs is an effective institutional system to ensure effective support tools for businesses and the sphere of scientific research which ensures the free transfer of knowledge. The development of innovation, however, will not be possible without a significant improvement in the conditions of economy.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) – 2010

Galati University Press, ISSN 2065 -569X

References

1. Bogdanienko J., Haffer M., Popławski W., *Innowacyjność przedsiębiorstw*, Uniwersytet Mikołaja Kopernika, Toruń 2004.
2. Chojnicki Z., Czyż T., Poland *On the Road to a Knowledge-Based Economy: A Regional Approach. In Recent Advances in Urban and Regional Studies*, Polish Academy of Sciences, Committee for Space Economy and Regional Planning.
3. Drucker P.F., *Innowacja i przedsiębiorczość. Praktyka i zasady*. PWE, Warszawa 1992.
4. *European Innovation Scoreboard 2008, Comparative Analysis of Innovation Performance*, January 2009.
5. *European Innovation Scoreboard 2007*.
6. Freeman Ch., *The Economics of Industrial Innovation*, F. Pinter, London 1982.
7. Jasiński A. H., *Innowacje i transfer techniki w procesie transformacji*, Difin, Warszawa 2006.
8. Koziol K., *Innowacyjność polskich przedsiębiorstw przemysłowych na tle doświadczeń Unii Europejskiej*, Uniwersytet Szczeciński, Szczecin 2007.
9. Niedzielski P., Markiewicz J., Rychlik K., Rzewuski T., *Innowacyjność w działalności przedsiębiorstw. Kompendium wiedzy*, Uniwersytet Szczeciński, Szczecin 2007.
10. Otto J., Stanisławski R., Maciaszczyk A. (red.), *Innowacyjność jako czynnik podnoszenia konkurencyjności przedsiębiorstw i regionów na jednolitym rynku europejskim*, Politechnika Łódzka, Łódź 2007.
11. *Przedsiębiorczość w Polsce w 2007 roku – dokument Ministerstwa Gospodarki przyjęty przez Radę Ministrów 27 lipca 2007*.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

12. Przedsiębiorczość w Polsce, Ministerstwo Gospodarki, Warszawa 2008.

13. Science And Technology In Poland In 2007, Statistical Information And Elaborations, Central Statistical Office, Warsaw 2009.

14. . Schumpeter J., *Teoria rozwoju gospodarczego*, PWN, Warszawa 1960.

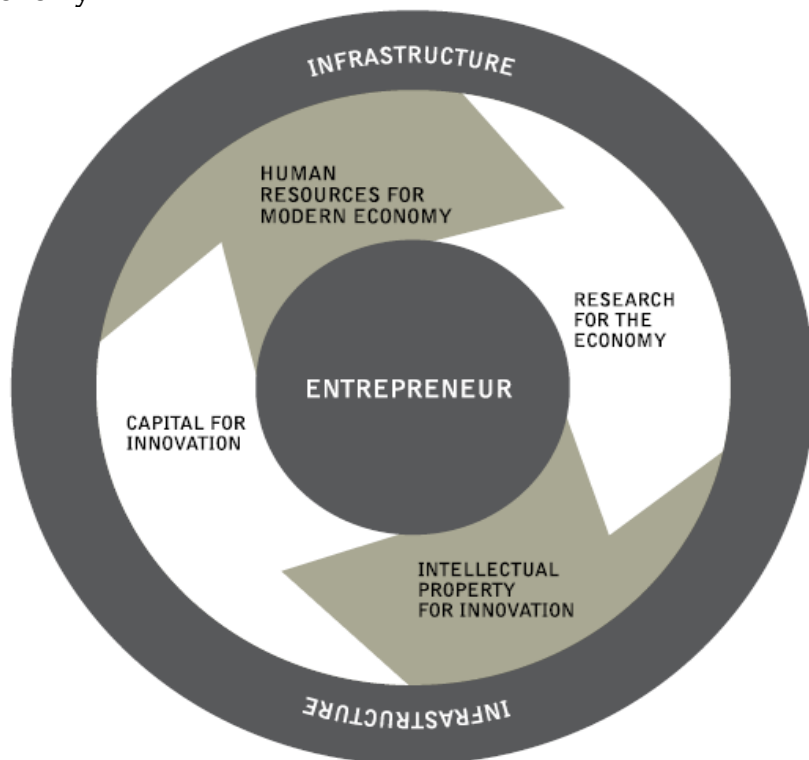
15. Starczewska-Krzysztosek M., *Ranking najbardziej innowacyjnych firm w Polsce*, Warszawa 2008.

16. The World Bank: Public financial support for commercial innovation, Waszyngton, 2006.

17. Wysokińska Z., *Innowacyjność jako źródło przewagi konkurencyjnej firm w: Innowacyjność małych i średnich przedsiębiorstw w procesie integracji europejskiej*, Z. Wysokińska, J. Witkowska (red.), Wyd. Uniwersytetu Łódzkiego, Łódź 2004.

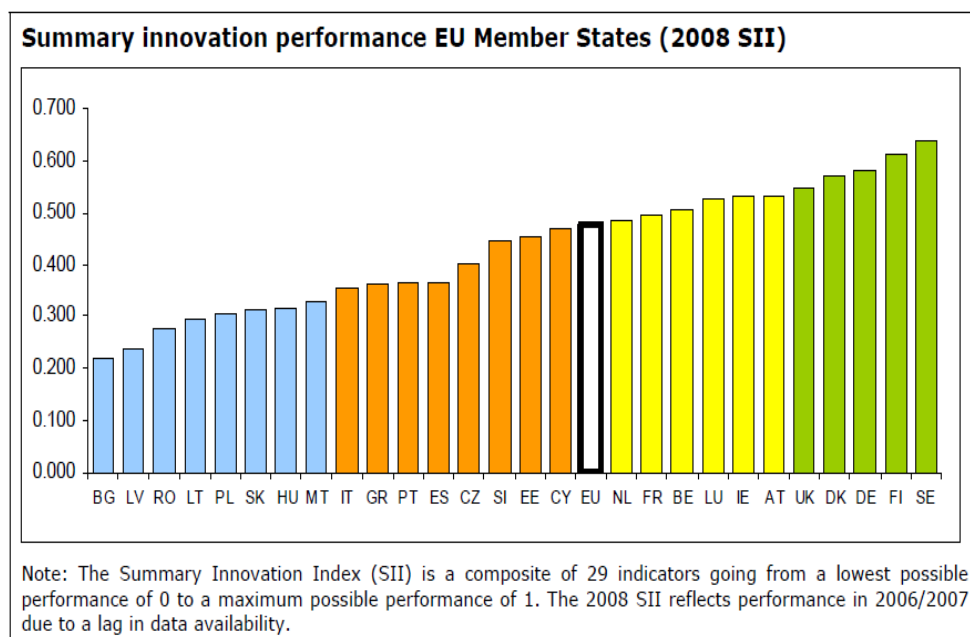
18. Żołątniowski A., *Potencjał innowacyjny polskich małych i średniej wielkości przedsiębiorstw*, Warszawa 2005.

Figure 1. The structure of the axis aimed at increasing innovativeness of the economy



Source: Kierunki zwiększania innowacyjności gospodarki na lata 2007-2013, Ministerstwo Gospodarki, Warszawa 2006

Figure 2. The values of overall Innovation Index (Summary Innovation Index - SII) for individual EU Member States



Source: EUROPEAN INNOVATION SCOREBOARD 2008,
COMPARATIVE ANALYSIS OF INNOVATION PERFORMANCE,
January 2009

Figure 3. Convergence of innovation among Member States of the European Union by 2008 EIS



Colour coding matches the groups of countries identified in Section 3.1: green are the innovation leaders, yellow are the innovation followers, orange are the moderate innovators, blue are the catching-up countries. Average annual growth rates as calculated over a five-year period. The dotted lines show EU performance and growth.

Source: European Innovation Scoreboard 2008, Comparative Analysis of Innovation Performance, January 2009

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

Table 1. Comparison of indicators of innovation for Poland and the enlarged European Union based on the EIS in 2008

	EIS dimension / indicator	Data source (reference year) ²	Indicators for Poland	Indicators for EU-27
ENABLERS				
<i>Human resources</i>				
1.1.1	S&E and SSH graduates per 1000 population aged 20-29 (first stage of tertiary education)	Eurostat (2006)	52,9	40,3
1.1.2	S&E and SSH graduates per 1000 population aged 20-29 (first stage of tertiary education) Eurostat (2006)	Eurostat (2006)	0,86	1,11
1.1.3	Population with tertiary education per 100 population aged 25-64	Eurostat (2007)	18,7	23,5
1.1.4	Participation in life-long learning per 100 population aged 25-64	Eurostat (2007)	5,1	9,7
1.1.5	Youth education attainment level	Eurostat (2007)	91,6	78,1
<i>Finance and support</i>				
1.2.1	Public R&D expenditures (% of GDP)	Eurostat (2006)	0,38	0,65
1.2.2	Venture capital (% of GDP) EVCA)	EVCA / Eurostat (2007)	0,017	0,107
1.2.3	Private credits (% of GDP)	IMF (2007)	0,40	1,31
1.2.4	Broadband access by firms (% of firms)	Eurostat (2007)	53,0	77,0

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

BUSINESS ACTIVITIES				
	Business investments			
2.1.1	2.1.1 Business R&D expenditures (% of GDP)	Eurostat (2006)	0,18	1,17
2.1.2	IT expenditures (% of GDP) EITO /	Eurostat (2006)	2,6	2,7
2.1.3	Non-R&D innovation expenditures (% of turnover)	Eurostat (2006)	1,03	1,03
	Linkages & entrepreneurship			
2.2.1	SMEs innovating in-house (% of SMEs)	Eurostat (2006)	17,2	30,0
2.2.2	Innovative SMEs cooperating with others (% of SMEs)	Eurostat (2006)	9,3	9,5
2.2.3	Business renewal (SME entries plus exits) (% of SMEs)	Eurostat (2005)	-	5,1
2.2.4	Public-private co-publications per one million population	Thomson Reuters / CWTS (2006)	1,3	31,4
	Throughputs- Indexes of protection of intellectual property			
2.3.1	EPO patents per one million population Eurostat	Eurostat (2005)	3,0	105,7
2.3.2	Community trademarks per one million population OHIM	OHIM / Eurostat (2007)	33,2	124,6
2.3.3	Community designs per one million population	OHIM / Eurostat (2007)	45,5	121,8
2.3.4	Technology Balance of Payments flows (% of GDP)	World Bank (2006)	0,40	1,07
	OUTPUTS			
	Innovators			

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

3.1.1	SMEs introducing product or process innovations (% of SMEs)	Eurostat (2006)	20,4	33,7
3.1.2	SMEs introducing marketing or organisational innovations (% of SMEs)	Eurostat (2006)	29,1	40,0
3.1.3	Resource efficiency innovators, average of 2 indexes:		-	
	Share of innovators whose innovation has significantly reduced labour costs (% of firms)	Eurostat (2006)	13,8	18,0
	Share of innovators whose innovation has significantly reduced the use of materials and energy (% of firms)	Eurostat (2006)	11,6	9,6
	<i>Economic effects</i>			
3.2.1	Employment in medium-high & high-tech manufacturing (% of workforce)	Eurostat (2006)	5,50	6,69
3.2.2	Employment in knowledge-intensive services (% of workforce) Eurostat (2007)	Eurostat (2006)	10,33	14,51
3.2.3	Medium and high-tech manufacturing exports (% of total exports)	Eurostat (2006)	48,9	48,1
3.2.4	Knowledge-intensive services exports (% of total services exports)	Eurostat (2006)	27,9	48,7
3.2.5	New-to-market sales (% of turnover)	Eurostat (2006)	4,56	8,60
3.2.6	New-to-firm sales (% of turnover)	Eurostat (2006)	5,55	6,28

Source: EUROPEAN INNOVATION SCOREBOARD 2008,
COMPARATIVE ANALYSIS OF INNOVATION PERFORMANCE,
January 2009

Figure 4 Voivodship in Poland

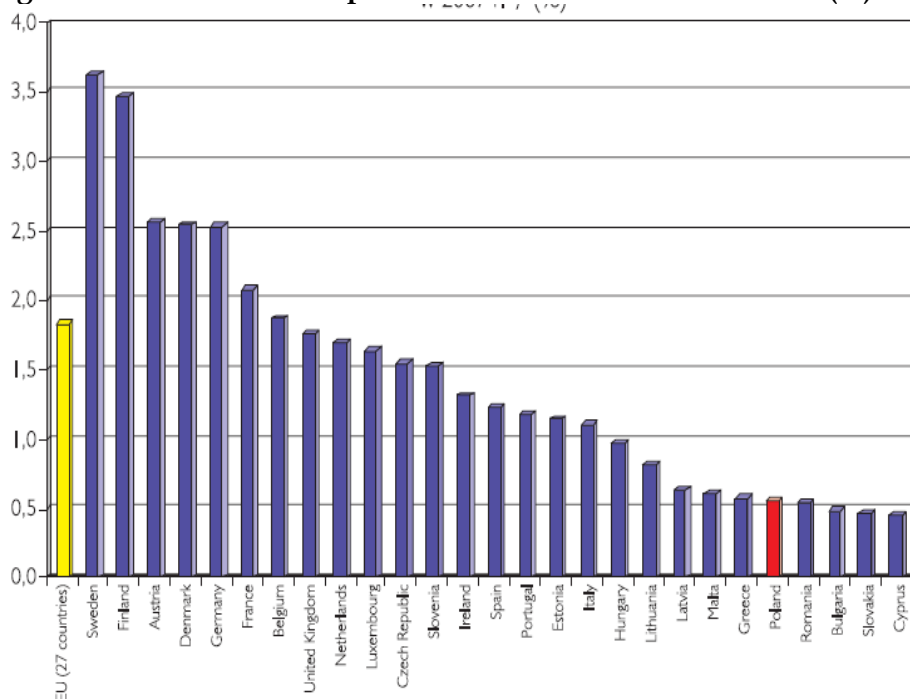
Voivodships

- [→ dolnośląskie](#)
- [→ kujawsko-pomorskie](#)
- [→ lubelskie](#)
- [→ lubuskie](#)
- [→ łódzkie](#)
- [→ małopolskie](#)
- [→ mazowieckie](#)
- [→ opolskie](#)
- [→ podkarpackie](#)
- [→ podlaskie](#)
- [→ pomorskie](#)
- [→ śląskie](#)
- [→ świętokrzyskie](#)
- [→ warmińsko-mazurskie](#)
- [→ wielkopolskie](#)
- [→ zachodniopomorskie](#)



Source: Central Statistical Office,
http://www.stat.gov.pl/gus/5840_5961_PLK_HTML.htm

Figure 5 Share of R & D expenses in GDP in the EU-27 in 2007 (%)



(Poland and UK-2006, Italy-2005)

Source: Eurostat 2008

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

Table 2. Units in research and development activity in 1995, 2000-2007 as of 31 XII

Specification	1995	2000	2001	2002	2003	2004	2005	2006	2007
Total	738	860	920	838	925	957	1097	1085	1144
Scientific and research-developments units	334	321	313	338	314	300	296	313	280
Scientific units of Polish Academy of Sciences	81	81	81	81	80	78	76	78	75
scientific institutes	54	58	58	57	58	58	59	59	59
independent research departments	27	23	23	24	22	20	17	19	16
Branch research-development units	218	222	215	211	201	197	194	190	180
research institutes	128	137	136	139	135	135	133	132	127
central laboratories	10	11	11	10	8	7	8	8	6
research-development centres	80	74	68	62	58	55	53	50	47
Others	35	18	17	46	33	25	26	45	25
Science support units	4	18	18	29	31	30	34	31	26
Development units	296	402	463	345	446	480	603	573	670
Higher education institutions	104	114	121	119	128	128	143	147	150
Other units	-	5	5	7	6	19	21	21	18

Source: Science and Technology In Poland In 2007, Statistical Information And Elaborations, Central Statistical Office, Warsaw 2009

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

Table 3. Main research and development activity indicators in 1995, 2000-2007

Specification	1995	2000	2001	2002	2003	2004	2005	2006	2007
Gross domestic expenditure on research and development activity (current prices)*	2132,8	4796,1	4858,1	4522,1	4558,3	5155,4	5574,6	5892,8	6673,0
ratio to gross domestic product (GERD/GDP) in %	0,63	0,64	0,64	0,58	0,56	0,56	0,57	0,56	0,57
per capita in zł	55	125	126	118	119	135	146	155	175
Employment in research and development activity									
per 1000 economically active persons**	4,9	4,6	4,5	4,5	4,5	4,6	4,4	4,3	4,6
of which researchers	2,9	3,2	3,3	3,3	3,4	3,6	3,6	3,5	3,6

*Excluding depreciation of fixed assets.

** Employment - in full-time equivalents, economically active persons (included employed and unemployed persons) - on the basis of the Labour Force Survey (LFS): in 1995 may, in 2000-2007 IV quarter.

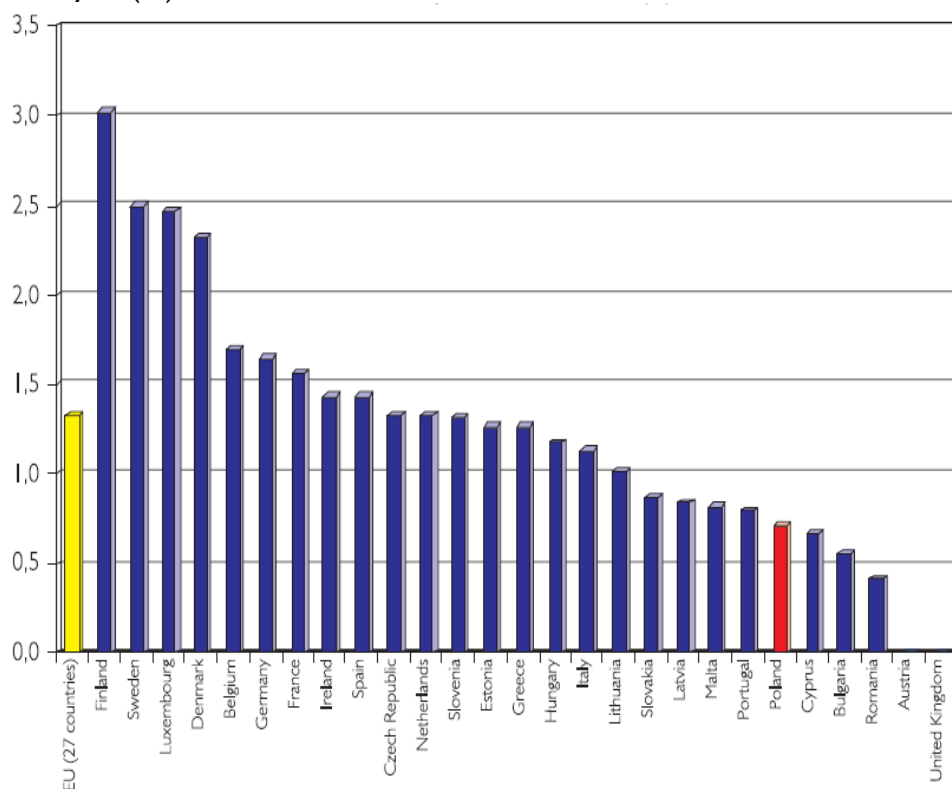
Source: Science And Technology In Poland In 2007, Statistical Information And Elaborations, Central Statistical Office, Warsaw 2009

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

Figure 6. The share of R & D employees in total employment in EU-27 in 2005 * / in (%)



* EU 27, Czech Republic, Estonia, Ireland, Spain, Lithuania, Hungary, Malta, Poland, Romania, Slovenia, Slovakia, Finland-2006, Austria, UK-

without data
Source: Eurostat 2008

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

Table 4 Employment in research and development activity in 2000, 2004-2007/HC data - as of 31 XII

Years	Total*	Of which full-time paid employees	Researchers*	
			total	of which women
2000	125614	116824	88189	33572
2004	127356	116779	96531	37594
2005	123431	113907	97875	38426
2006	121283	113842	96374	38065
2007	121623	112956	97289	38802

**Full-time and part-time paid employees without converting into full-time paid employees.*

Source: Science and Technology in Poland in 2007, Statistical Information And Elaborations, Central Statistical Office, Warsaw 2009.

PUBLIC ADMINISTRATION & REGIONAL STUDIES
3 rd Year, No. 1 (5) - 2010
Galati University Press, ISSN 2065 -569X
**ROMANIAN ECONOMIC POLICY UNDER THE TRAP
INNOCENCE**

Ph.D. Professor Romeo Ionescu
Dunarea de Jos University, Romania¹

1. The evolution of the main economic indicators in Romania during 1992-2009.
2. The forecast of the Romanian economic environment during 2010-2011.
3. Are we sure that IMF wants to reform the Romanian economy?
4. Conclusions.

Abstract

The project of a significant change in Romanian fiscal policy causes a lot of theoretical controversies and great movements of the labour unions.

The paper deals with the idea that Romania is far away from a "Greek situation" and the government fiscal measures are not the best ones.

We started with the analysis of the Romanian economy situation until 2009, in order to observe that it wasn't so bad compared to other Member States and the EU average.

The next step was to realise a comparative analysis of the economic forecast for Romania and the EU during 2010-2011.

A distinct part of the paper is to demonstrate the necessity to adopt other fiscal measures than those proposed by the government and to offer an alternative solution.

¹ Ionescu Romeo, Aurel Vlaicu Street no.10, 800508 Galatz, Romania, Dunarea de Jos University, Galatz, Romania, phone 0040236493003, fax 0040236493370, ionescu_v_romeo@yahoo.com, Vice president of the Romanian Regional Science Association (A.R.S.R); Founder member of Romanian General Association of the Economists (AGER); Laureate of the Romanian Government Ordain for Teaching Activity as Knight; Member of Research Board of Advisors, American Biographical Institute, U.S.A.; Member of European Regional Science Association; Member of European Regional Science International; Multiplication of European information under European Commission in Romania; Member of International Advisory Board for Romanian Journal of Regional Science, listed in DOAJ database.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

Keywords: economic collapse, economic forecasts; economic reform, fiscal solutions.

JEL Classification: E6, F36, R13.

1. Romania faced one of the greatest real GDP growth rate across the EU during 2004-2008. But this economic growth was followed by fiscal and external imbalance, which supported the present socio-economic situation in Romania, as well.

During 2006-2008, Romania achieved significant economic growth rates, greater than 6%, even than 7%. In 2009, the economic collapse led to a GDP's decrease by 7.1% (see Figure 1). Only five Member States had a decrease of their GDP greater than in Romania.

The economic growth in Romania was supported by consumption. During 1992-2008, the private consumption grew powerfully, as a result of the revenues' growth and consumption credits' facilities. In 2009, the situation became worst and the private consumption decreased by 10.5%. Only three other Member States had a worsen consumption rate in the same year. The public consumption had an insignificant growth rate during 1992-2005 and decreased in 2006 and 2009. In order to create an optimistic environment for the elections, the public consumption grew by 7.1% in 2008. As a result, it decreased to 0.8% in 2009. The government consumption expenditures change in 2009 was practically insignificant, even if the crisis was devastating.

The same evolution had the gross fixed capital formation, which achieved double-digit growth rates during 2006-2008. The crash of the investments in 2009 supported the gross fixed capital formation decrease by 25.3% and the equipment decrease by 32.7% as well. They were the result of the closing companies in Romania. They were some great companies' production capacities which were closed and thousands of SMEs, as well.

The Romanian foreign trade is chronically in the red. As a result, the imports' growth rates were greater than the exports' growth rates during 1992-2008. In 2009, Romania was forced to decrease the imports because it wasn't able to pay them. As a result, the imports decreased by 20.6% and the exports by 5.5% (see Figure 2).

This is why the net exports contribution to GDP growth was

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

positive (7.3%) in 2009. It was for the first time when the net exports contribution to GDP growth was positive in Romania. On the other hand, the domestic demand and the inventories' contribution to GDP growth were negative in 2009.

The economic growth in Romania supported the decrease of the unemployment rate during 2006-2008. This rate grew by 6.9% in 2009 (see Figure 3). The unemployment rate grew as a result of the economic restructuration, especially in agriculture, steel industry and constructions. But the unemployment rate in Romania was smaller than the EU average.

Parallel to this, the compensation of employees/head grew very much during 1992-2008. This was doubled by a negative trend of the total employment in Romania, as in Figure 4. In this figure, we can observe that the total employment is approximately constant.

The problem appears when we analyse the labour productivity. During 1992-2008, the labour productivity growth rate was one of the greatest across the Member States. In 2009, this indicator marked a decrease by 6.2%, the highest decrease in the EU (see Figure 5).

The labour productivity decrease was accompanied by a dramatically breakdown of the total investment in 2009. During 1992-2008, the total investment growth rate had a positive trend, with a peak of 30.3% in 2007 (see Figure 6). Still in 2001, total investment growth rate was greater in Romania than in the EU until 2008. In 2009, the situation changed, because the decrease of the EU total investment rate was smaller than in Romania.

If we focus the analysis only on the public investment as percentage of GDP, we can observe that the Romanian ones are greater than the community ones during 2001-2009 (see Figure 7).

We have to use carefully this above mentioned information because the inflation rate in Romania was greater than in the EU during 1992-2009. The explosion of the inflation rate in Romania began in 1990 and continued to have two digit values until 2004. Even if this rate decreased by 5.6% in 2009, it remained high according to the EU average (see Figure 8). According to this figure, the prices explosion after 1990 was followed by a higher inflation rate in Romania than in the EU. As a result, the inflation rate was 4.6% greater in Romania than in the EU in 2009.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

An important element of the analysis is the budget balance. The general government expenditures growth as a percentage of GDP was constant in Romania during 1992-2009. As a result, these expenditures achieved 40.4% of GDP in 2009. On the other hand, the general government revenues remained constant during the same period (approximately 32% of GDP). As a common conclusion, the general government expenditures as percentage of GDP are smaller in Romania than in the EU in 2009, while the general government revenues as percentage of GDP have the same evolution (see Figure 9).

At least, we analysed the gross debt as a percentage of GDP. This analysis leads us to a positive conclusion: Romania has a gross debt less than several other Member States, even in 2009 (see Figure 10).

According to the above analysis, the first important intermediary conclusion is that Romania had not a bad economic situation until 2008. Moreover, this situation was not too bad even in 2009.

2. In March 2010, the Romanian government approved the updated Convergence Program 2009-2010, which quantified the latest evolutions of the internal and international economic environment. The document was based on present legal framework and the 2010 budget provisions [1].

The convergence program maintains the undertaking of adopting euro on 1st of January 2015 and estimates an economic growth by 1.3% in 2010 and 3.7% in 2012. The inflation rate will decrease and the employment will grow, as well.

The average term economic strategy is focused on: the re-achievement of the economic growth, new jobs, public deficit adjustment, disinflation and population protection against the crisis' effects.

Other objectives are: the improvement of the fiscal policy performances on average term, the efficient use of the EU funds, the insurance of the public finances sustainability on long term, the public administration restructuration and efficiency, the implementation of the undertaking towards IMF, European Commission and World Bank.

Even if the Romanian government thinks about the euro adoption in 2015, the national currency will not be able to adhere to the exchange rate mechanism ERM II until 2012.

The Romanian government forecast a GDP growth rate by 1.3% in

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

2010, 2.4% in 2011 and 3.7% in 2011. The problem is that IMF forecast is for a GDP negative growth rate in 2010.

On the other hand, the budgetary deficit has to decrease to less than 3% of GDP until 2012, even if it was of 7.4% of GDP in 2009.

In 2010, the domestic demand will grow by 1.4%. Eurostat forecast talks about only 0.6% in 2010 and 4.1% in 2011. This growth will be based on the private consumption (+3.8%). Eurostat quantifies the same indicator by 0.7% in 2010 and 4.2% in 2011. The problem is that there are great disparities between the Romanian government optimistic forecasts, the Eurostat forecast and the IMF pessimistic forecasts, as well [2].

The evolution of the Romanian foreign trade will be supported by a greater foreign demand and a better domestic economic activity. The exports of goods and services will grow by 5.5% in 2010 and 6.5% in 2011. The contribution of the net exports to GDP growth will be of 0.3% in 2010 and -0.8% in 2011. As a result, the contribution of the trade deficit to GDP was -5.8% in 2009. The same contribution will achieve to -5.1% in 2010 and 2011.

The current account deficit will be maintained under the sustainable limits and will represent -4.4% of GDP in 2010 and -5.6% in 2011. The same indicator for the EU average will achieve -1.4% of GDP in 2010 and -1.3% of GDP in 2011.

The unemployment rate will grow spectacularly in 2010 and 2011, as a result of the latest economic measures engaged by the Romanian government to the IMF. As a result, the unemployment rate can achieve 10% in 2010.

At this moment, any forecast for the Romanian economy is very difficult. Nowadays, the Romanian economy is under chaos. The Romanian government doesn't have a real economic development strategy and it functions only in order to cover the current socio-economic problems.

On the other hand, the economic situation in Romania was not so bad at the beginning of 2010 and its evolution is better than the EU average during 2010-2011. We refer to general government gross debt as a percentage of GDP, general government balance, current account balance or unemployment rate (see Figures 11-12).

This is the second important intermediate conclusion, which supports the idea that Romania's economic situation is not the worst in

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

the EU.

3. This is the situation of the Romanian economy. Within this framework, the Romanian government sends the message that the economy is down and we need a multiple financial support from IMF and EU. The main cause of this demand was the budgetary deficit caused by the budgetary expenditures. As a result, the Romanian government received 32.3 billion Euros from IMF and other financial institutions in 2009.

But only 9.4 billion Euros from this credit arrived to investment [3]. Romania made public investment three times less than the loans from IMF, EU and public bonds. IMF lent the Romanian government 9.16 billion Euros. 2.13 billion Euros were placed to the treasury and the rest to the national bank. The money from the national bank arrived indirectly to the Ministry of Finance, which borrowed massively from banks.

Moreover, the Romanian government chooses to scarify budget and retired persons. As a result, the public wages will be reduced by 25% and pensions and doles by 15%. These measures are the effect of the government incapacity to decrease the public expenditures and to use received money for investment, not for budgetary deficit financing.

In 2009, Romania received a foreign financial package of 19.95 billion Euros: 12.95 billion Euros from IMF, 5 billion Euros from EU, 1 billion Euros from the World Bank and 1 billion Euros from ERDB, EIB and IFC. If this money had been used in investment, it would have covered the budgetary deficit.

At the beginning of May 2010, an IMF official delegation came to Romania and signed an agreement with the Romanian government in order to decrease the budgetary deficit. The Romanian government reaction was to declare that it tries to protect the country from becoming a "new Greece case". As a result, the government considered that the options for it were to grow taxes or to decrease the budgetary expenditures.

The problem is that the revenues decrease and the inflation will hardly affect the economic growth and the tax collection. The Romanian government is focused on the deficit decrease from 9% of GDP to 6.8% in 2010.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

According to the official data from 2009, the decrease by 15% of the pensions, unemployment benefits and other financial rights would imply a decrease of the expenditures from 12.7% of GDP to 10.8% (-1.9% of GDP).

In 2009, the salary envelope was of 9.2% of GDP and the effective paid salaries covered 5.6%. If the Romanian government cuts 25% of these salaries, the budgetary saving will be of 1.4%.

Practically, the total budgetary saving will achieve 3.3% of GDP (1.9%+1.4%). On the other hand, the government will receive lower budgetary revenues as a result of the consumption decrease.

Another governmental measure will be focused on pensions. But the greatest part of the pensions is very little in Romania. As a result, the replacement coefficient (according to present pension system and average life is only of 39%, not of 80% as the right estimation is.

Moreover, the number of budget labour grew from 900000 to 1500000 in the last five years. This is why the government wants to reduce the wages and the employment from this sector. The problem is that the forecast wages decrease by 25% will affect all budget labour categories in the same way, even if the number of professors and doctors didn't grow in the last five years. Practically, the Romanian government has a plan to decrease the budget labour, even if it is efficient or not.

Another intermediary conclusion is that the Romanian government doesn't have to cut the pensions or to apply the same decrease for all budget labour categories.

Moreover, the government has an ambitious plan to cut the budget labour, including professors and physicians. During 1997-2008, the number of physicians grew in Romania, but it was still low compared to other Member States. Practically, only Poland had a lower number of physicians per 100000 inhabitants than Romania in 2008 (see Figure 13).

A bad situation appears in connection to the hospital beds per 100000 inhabitants. Here we don't speak only by of number; we must speak about conditions and facilities. In Romania, almost all hospitals have no medicines, including surgery instruments. This is why the government decision to cut the number of physicians is aberrant.

The situation of the professors is not better. This is the result of the public expenditures on education as percentage of GDP in Romania (3.48%). This is less than the EU average (5.04%) and is greater only than

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

in Luxemburg (3.41%) (see Figure 14).

The sustainable solution for the government is to cut the public expenditures, which covered 5.7% of GDP in 2009. These expenditures are quantified to 7 billion Euros.

Moreover, the government has to focus on the underground economy. The underground economy covers 25-40% of GDP in Greece, Italy, Spain, Romania and Bulgaria. On the other hand, the underground economy in the Central and Northern Member States covers only 5-15% of GDP. The Romanian [Tax and Customs Administration](#) declared that it stopped fiscal rip-offs which covered 1.6% of total underground economy in 2009. The immediate solution would be to support the implementation of the Romanian dedicated laws.

4. The Romanian government assumes to cut budget labour revenues, pensions and unemployment benefits. On the one hand, the first amendment is that it is not a deadline to these measures and the people are not informed about the dimension of their financial sufferance.

On the other hand, the government has taken any measure connected to the economic growth, which would be able to improve the tax collection and to create new jobs. Practically, the government has no solutions to this crisis.

What can we do? We propose the decrease the social contributions (45% nowadays) and a more careful taxation of the revenues. These measures will be able to decrease the unit labour cost and will support companies to invest more and to move their plants from abroad to Romania.

References

[1] Romanian Government *Updated Convergence Program 2009-2010*, Bucharest, March 2010.

[2] European Commission, *European Economic Forecast*, Brussels, Spring 2010.

[3] Boicu Mihai, *About IMF loan wasting*, Wall-Street (electronic edition), 10th of May 2010.

[4] Popescu-Buzeu Radu, *Pensions' sacrifice is not the solution*, Wall-

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

Street (electronic edition), 16th of May 2010.

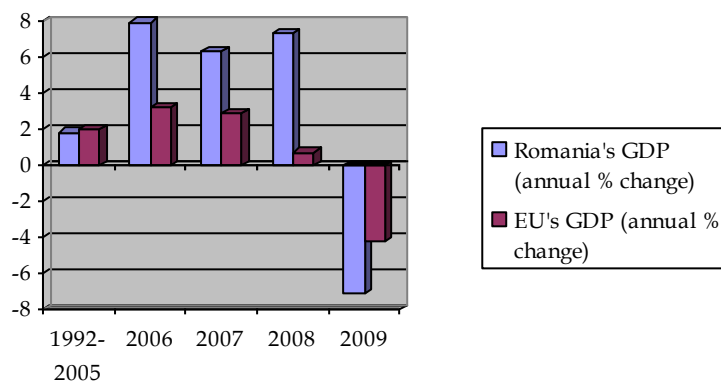


Figure no.1: The evolution of the Romania's GDP

Source: personal information processing according to European Commission, *European Economic Forecast*, Spring 2010, Brussels, p.134.

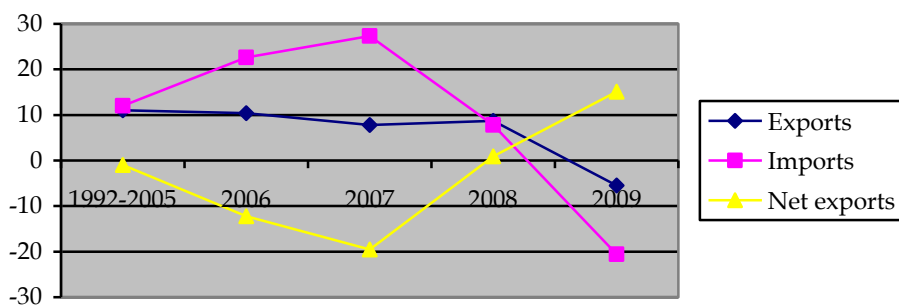


Figure no.2: The evolution of the Romania's foreign trade (%)

Source: personal information processing according to European Commission, *European Economic Forecast*, Spring 2010, Brussels, p.134.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

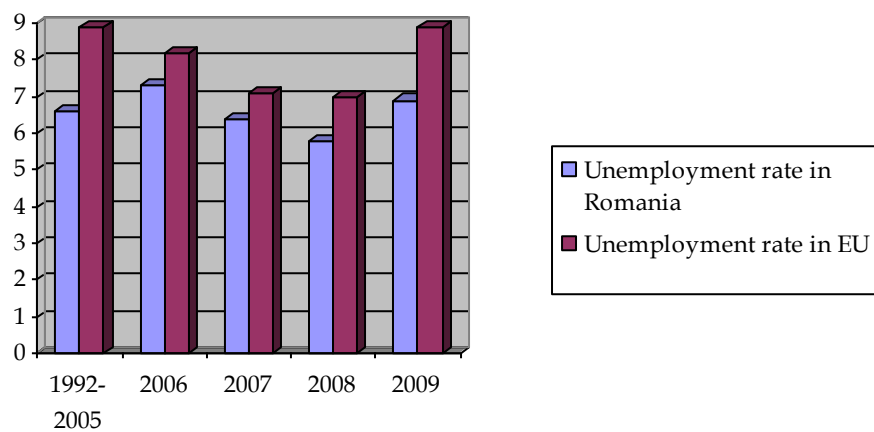


Figure no.3: The evolution of the unemployment rate (%)

Source: personal information processing according to European Commission, *European Economic Forecast*, Spring 2010, Brussels, p.134.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

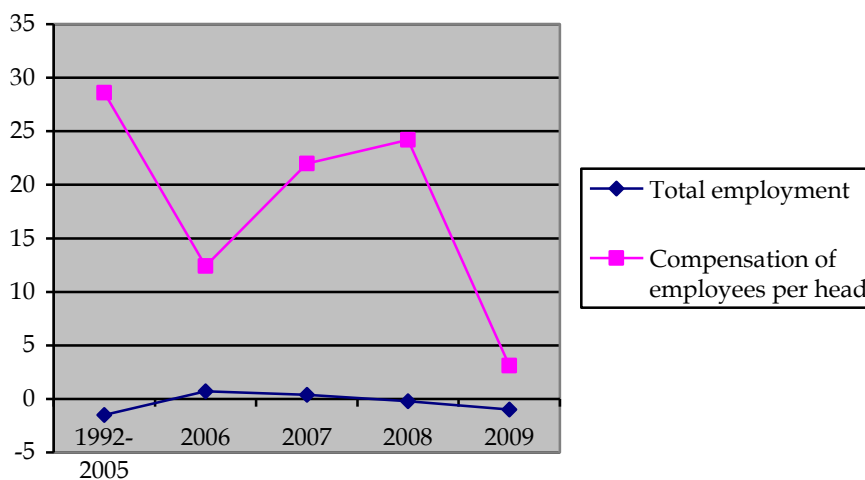


Figure no.4: The evolution of the total employment and compensation of employees (% of GDP)

Source: personal information processing according to European Commission, *European Economic Forecast*, Spring 2010, Brussels, p.192.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

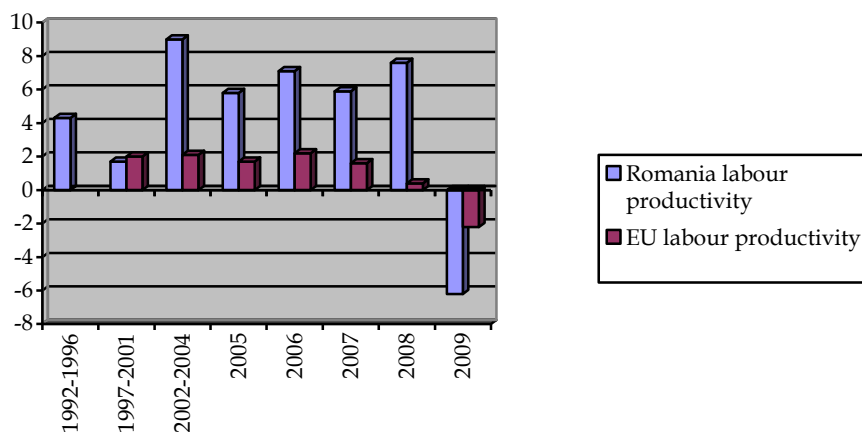


Figure no.5: The evolution of the labour productivity (%)

Source: personal information processing according to European Commission, *European Economic Forecast*, Spring 2010, Brussels, p.194.

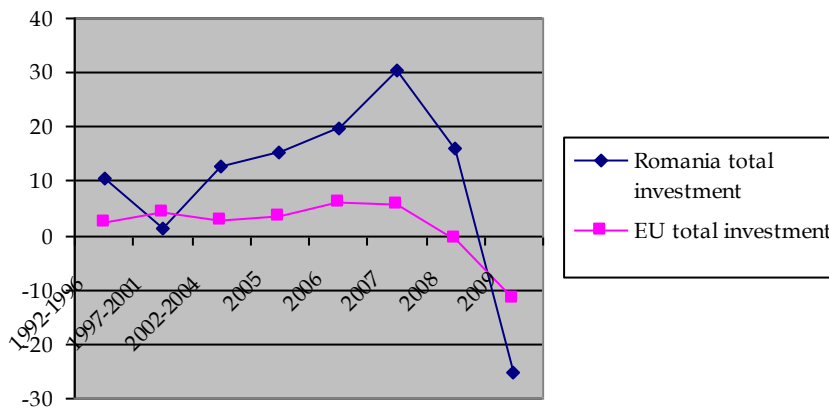


Figure no.6: The evolution of the total investment (% of GDP)

Source: personal information processing according to European Commission, *European Economic Forecast*, Spring 2010, Brussels, p.186.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

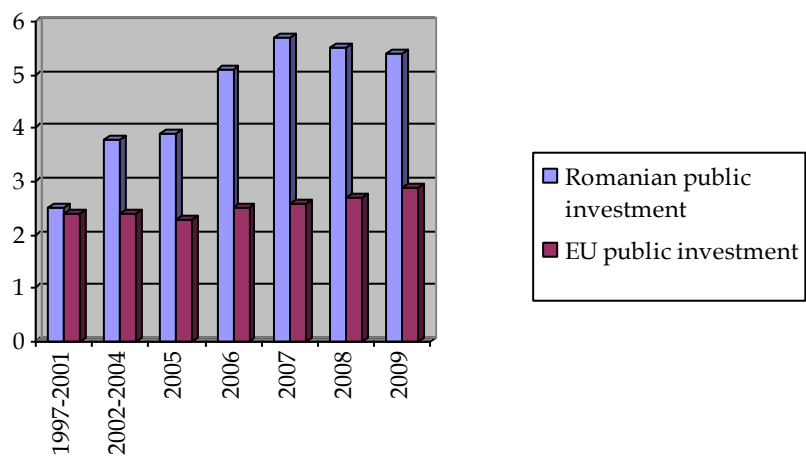


Figure no.7: The evolution of the public investment (% of GDP)

Source: personal information processing according to European Commission, *European Economic Forecast*, Spring 2010, Brussels, p.187.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

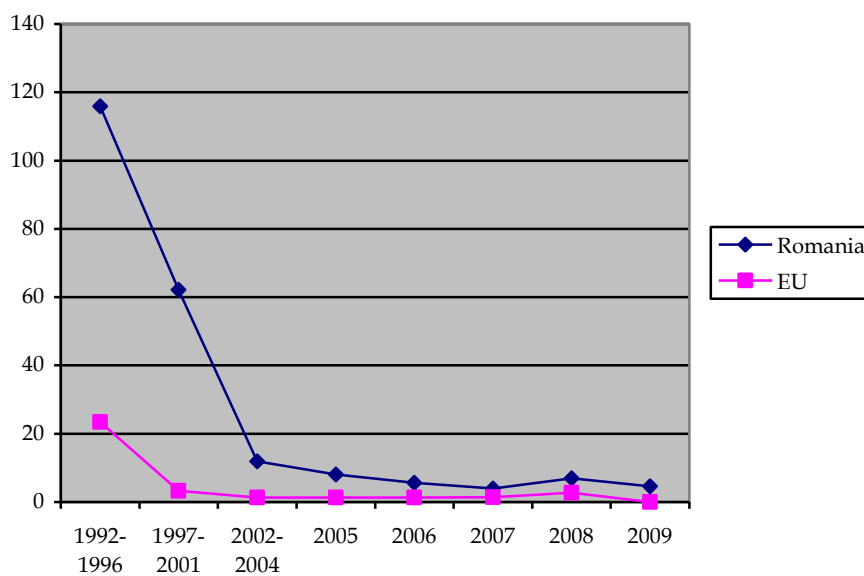


Figure no.8: The evolution of the inflation rate (%)

Source: personal information processing according to European Commission, *European Economic Forecast*, Spring 2010, Brussels, p.189.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

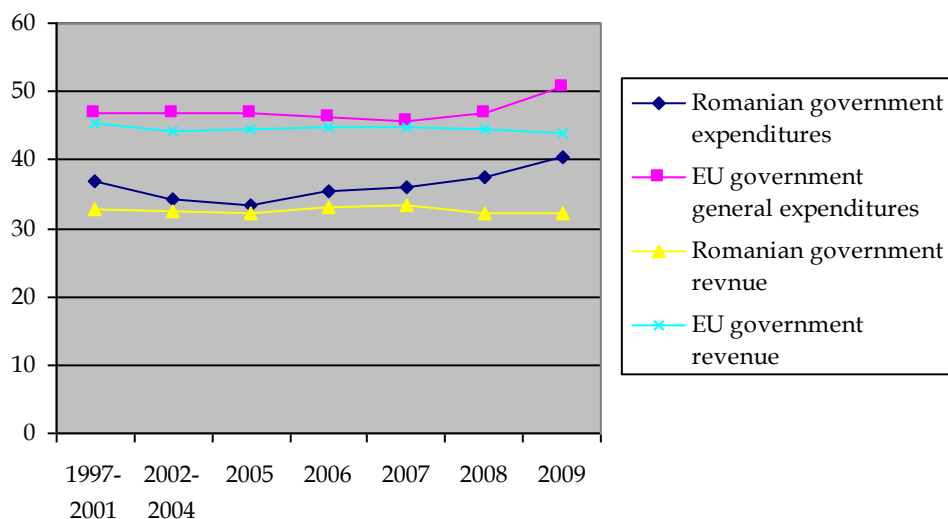


Figure no.9: The evolution of government expenditure and revenue (% of GDP)

Source: personal information processing according to European Commission, *European Economic Forecast*, Spring 2010, Brussels, p.199.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

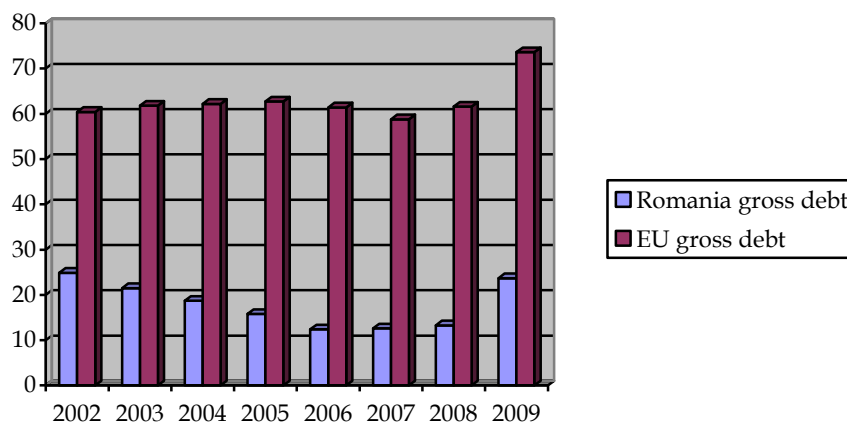


Figure no.10: The evolution of gross debt (% of GDP)

Source: personal information processing according to European Commission, *European Economic Forecast*, Spring 2010, Brussels, p.199.

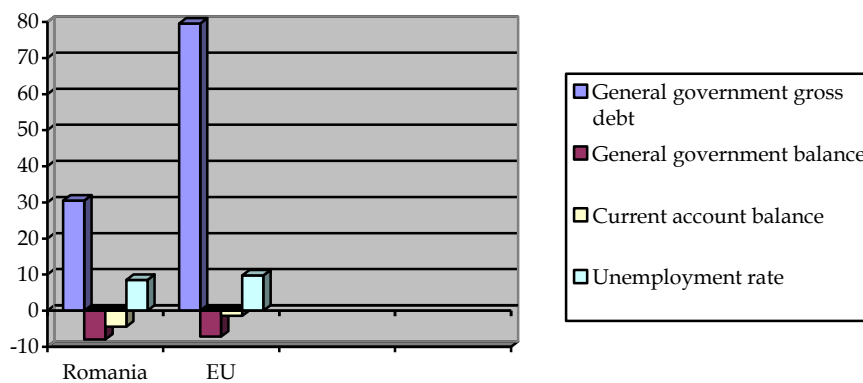


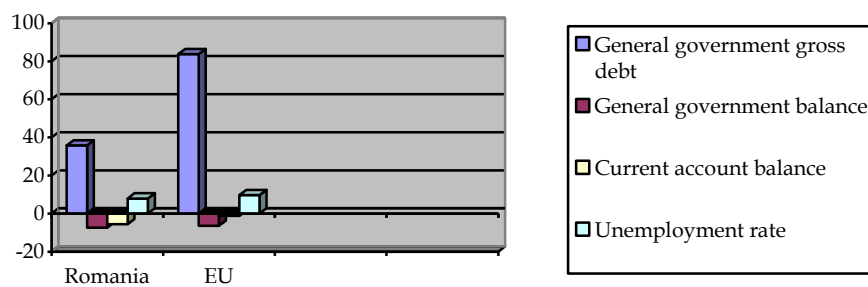
Figure no.11: The situation of main economic indicators in 2010 (% of GDP and %)

Source: personal information processing according to European Commission, *European Economic Forecast*, Spring 2010, Brussels, p.15.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X



**Figure no.12: The situation of main economic indicators in 2011
(% of GDP and %)**

Source: personal information processing according to European Commission, *European Economic Forecast*, Spring 2010, Brussels, p.15.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

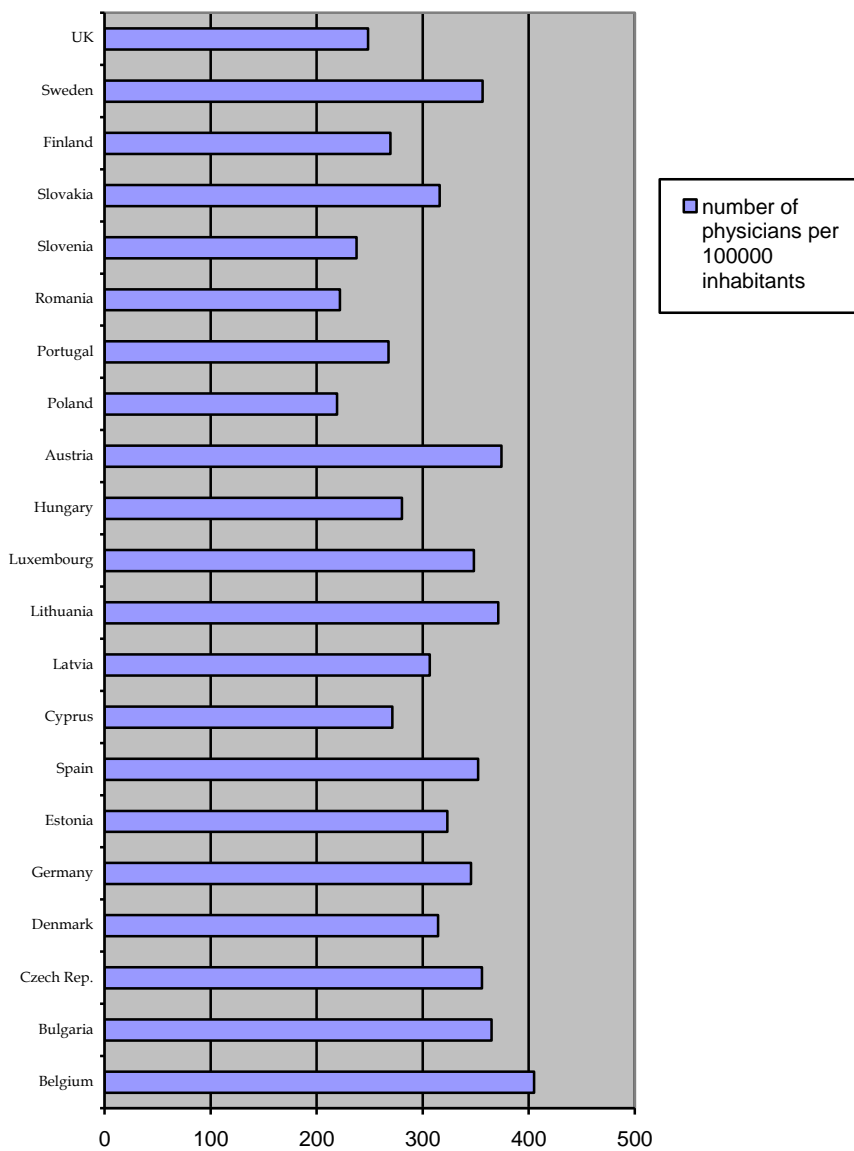


Figure no.13: Number of physicians per 100000 inhabitants

Source: personal information processing according to Eurostat.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

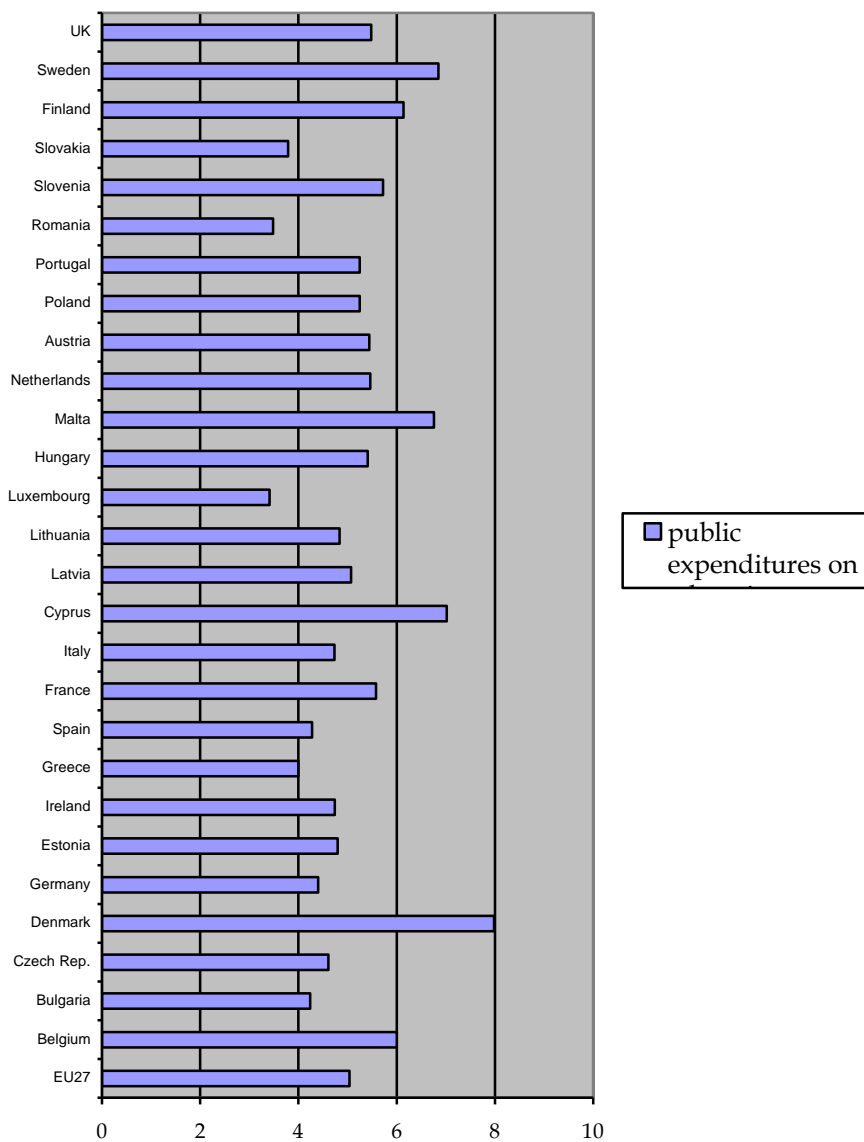


Figure no.14: Public expenditures on education as percent of GDP

Source: personal information processing according to Eurostat.

PUBLIC ADMINISTRATION & REGIONAL STUDIES
3 rd Year, No. 1 (5) - 2010
Galati University Press, ISSN 2065 -569X
**REGIONAL DEVELOPMENT BY INCREASING THE
COMPETITIVENESS AND COMBATING THE TAX EVASION**

**Ph.D. Lecturer Florin Tudor
Dunarea de Jos University, Romania¹**

1. Current economic situation in Romania
2. Tax evasion in Romania
3. Innovation, the global process of technological and commercial creativity
4. Conclusions

Abstract:

Latest figures show that Romania is importing, more than it is exporting, chemicals, fuel and food, accounting surplus (exports exceed imports) regarding raw materials and a near-zero balance (exports almost equal to imports) in group "machinery and transport equipment". Romania is also facing an unprecedented high level of tax evasion, while the Government has no strategy in order to reduce or eradicate it, but rather adopts laws to collect as much as possible from the good faith taxpayers without a adequate plan aimed to combat the high level of tax evasion.

Although is in full recession, the Government has not yet developed a proper plan aimed at restoring damages brought about high tax evasion and providing incentives, thus contributing to the economic recovery.

Through this study, we aim to identify a series of actions, especially the ones from the fields of competition and innovation to cover expenses in conjunction with appropriate decisions to combat tax evasion and to allow the recovery of business, in our opinion, the only solution for a healthier economic environment in Romania.

¹ Florin Tudor, Galați, Str. Domnească, no.111, phone/fax: 0040236.493370, mail: florin.tudor@ugal.ro; Member of the Romanian Regional Science Association (A.R.S.R); Member of the European Regional Science Association (E.R.S.A); Member of Balkan Environmental Association (B.En.A); Lawyer of Galați Bar; Arbitrator of the Arbitration Court near the Chamber of Trade, Industry and Agriculture of Galați

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

Keywords: regional development, tax evasion, commercial and technological creativity, innovation.

JEL Classification: R11, O16, O23

1. Current economic situation in Romania

In figures, the exports in the first three months of the year were worth 10.8 billion Euros, while imports amounted to 13.6 billion Euros. Comparing these data with those in the first quarter of the last year, the INS notes down that exports grew to 19.4% in lei (23.4% in euro currency) and imports increased by 10.9% the values expressed in lei (14.4% in euro).

The dynamics based on the difference between the values expressed in lei and the calculated values expressed in euro was due to the appreciation of the currency from the months of January to April 2010, with values ranging between 1.6% and 4.5%, for the corresponding months of 2009.

In April 2010, according to preliminary estimates by the National Institute of Statistics¹, exports FOB amounted to 11.8571 billion lei (2.8833 billion euros) and CIF imports amounted to 15.3553 billion lei (3.7338 billion Euros). Compared with April 2009, exports rose by 29.8% to values expressed in lei (33.3% values in euro) and imports increased by 18.1% to values expressed in lei (21.2% the values expressed in Euros), and compared to March 2010, in the month of April 2010, exports decreased by 4.3% to values expressed in lei (4.7% in euro) and imports decreased by 4.0% for the values expressed in lei (4.3% in euro). The commercial deficit FOB-CIF in April 2010 was of 3.4982 billion lei (850.5 million Euros), below than April 2009, 375.3 million lei (66.7 million).

The FOB exports achieved during January 1st and April 30th, 2010 were 44,530.0 million lei (10,811,500,000 euro) and CIF imports were of 56,117.0 million lei (EUR 13,624,700,000). Compared to the time period of January 1st and April 30th, 2009, exports rose by 19.4% for values expressed

¹ National Institute of Statistics, International trade in goods in April and during 1.I-30.IV 2010

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

in lei (23.4% in euro currency) and imports increased by 10.9% for values expressed in lei (14.4% in euro).

The commercial FOB-CIF deficit during the time period of January 1st and April 30th, 2010, was of 11,587.0 million (2.8132 billion Euros), with 1.7487 billion lei (329.8 million Euros) less than January 1st, April 30th, 2009 time period.

The trade value of goods during January 1st, April 30th, 2010, was of 32.8396 billion lei (7.9758 billion Euros) for deliveries and 40.5351 billion lei (9.8468 billion Euros) for entries, representing 73.7% of the total exports and 72.2% of the total imports. The dynamics based on the difference between the values expressed in lei and the calculated values expressed in euro was due to the appreciation of the currency for the months of January to April 2010, with values ranging from 1.6% to 4.5%, for the corresponding months of 2009.

Table no.1

	Balance FOB-CIF 2009 ^{p)}									Balance FOB-CIF 2010			
	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan. ^{r)}	Feb. ^{r)}	Mar. ^{r)}	Apr. ^{e)}
Billion lei	-3,87	-3,28	-3,18	-2,33	-3,19	-4,83	-3,91	-3,61	-3,78	-1,86	-2,63	-3,60	-3,50
Billion euro	-0,92	-0,78	-0,76	-0,55	-0,75	-1,14	-0,92	-0,84	-0,89	-0,45	-0,64	-0,88	-0,85

Source: INS

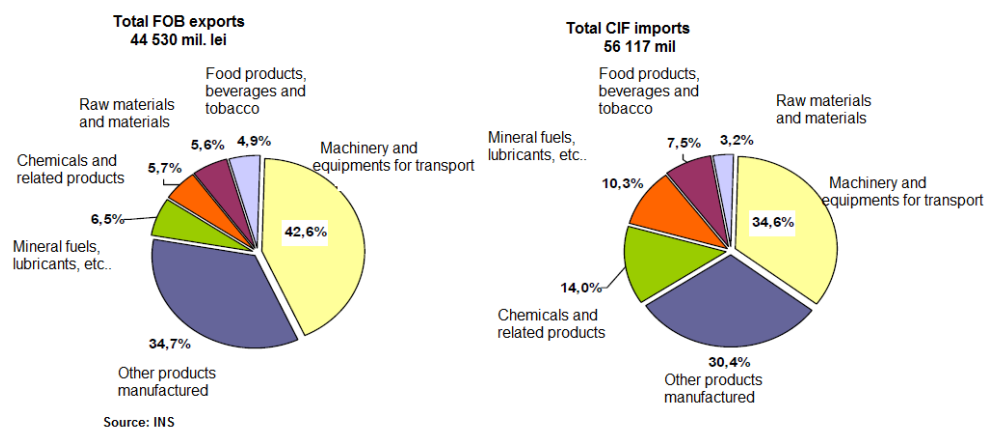
During the time period of January 1st up to April 30th, 2010, a major share in the structure of exports and imports are held by groups of products: machinery and transport equipment (42.6% and 34.6% for export and, respectively, import) and other manufactured products (34.7% 30.4% for export and import respectively).

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) – 2010

Galati University Press, ISSN 2065 -569X

The structure of foreign trade
in products groups, during 1.I-30.IV 2010



Source: INS

2. Tax evasion in Romania

According to the reports of PwC Romania, tax evasion in Romania amounts to at least 15 billion, given that only the VAT fraud regarding the intra-Community acquisitions is 3.3% of GDP, almost four billion, this mainly because of poor regulation laws. Most of the tax evasion related to VAT represents the defrauding of the state budget from the food trade. Ministry of Agriculture believes that only in agriculture the tax evasion is 4-5 billion. The evasion occurs mainly on imports of vegetables, fruit, meat and flowers but also in the gray economy. But in an ad hoc ranking, the highest tax evasion is in tobacco, alcohol and petroleum products, as well as food which enter Romania without taxes, being in the Extra-Community system, and these will be sold in different locations without charge, which will lead to the lack of payment of VAT to the budget.

Regarding the specialized control of the Ministry of Finance, from January to May 2010, the Financial Guard has conducted over 85,000 such inspections. Following these actions there have been applied 57,000 fines totaling 118 million lei. Tax Commissioners have determined that the total additional tax liabilities resulting from the controls was about one billion Euros and the protective measures were taken regarding 2.7 billion lei. Last year, during the same period, the Financial Guard has deployed more than

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

70,000 unannounced actions, which concluded in about 79 000 acts of control, according to the National Agency for Fiscal Administration (NAFA). 51,000 fines were imposed; and the loss was established to over one billion lei. Comparing the data shows that, this year, the tax obligations established, for the operators, by the Revenue Commissioners, have grown four times higher as compared to the corresponding last year period.

All this led to the Romanian Government adoption of a legislative emergency ordinance to increase the budget revenues, whose level was deeply affected by the economic and financial crisis, and to achieve a balance between the revenue and the expenditure levels, correlated with the macroeconomic objectives. The purpose of the law is to implement comprehensive measures in order to broaden the tax base, to increase the direct taxes and the local taxes.

3. Innovation, the global process of technological and commercial creativity

There are a number of factors that influence the effectiveness and the impact of the European cohesion policy. A context characterized by price stability and balance budget will benefit from lower interest rates. Also, this stimulates investment and capital accumulation, increasing both productivity and employment of labor. This measure also facilitates the increase and the diffusion of innovation and reduces the cost of capital¹.

The cohesion policy contributed significantly in 2000-2006 to the research efforts and to the development and the consolidation of the innovative capacity, in certain regions particularly. Based on the programs available on January 1st, 2007, the proportion of the cohesion policy resources to be invested in innovation research and development will be over two times higher in 2007-2013. In fact, in 2007-2013, the guidance system of loans will direct 64% of the Convergence resources and 80% of the regional competitiveness and employment work to cover the cost of innovation.

¹ See, for details, The Fourth Report on Economic and Social Cohesion of the European Commission (SEC (2007) 694), p.3.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

Using these credits, however, remains to the capacity of the underdeveloped regions to manage research, development and innovation projects sufficiently numerous and well prepared to ensure that they will be actually used and will not be diverted to low value-added investment.

Innovation, according to the principles of the English economist Schumpeter¹, is evidenced through a series of activities more or less interdependent: a vertical motion transfer: (knowledge→ research → new product → new technology), horizontal transfer movement: (innovations → new applications), a new form of organization (management) of the company activity → a new image. Therefore, innovation is the specific instrument of entrepreneurship, the means by which it exploits change as an opportunity for a given activity.

Romania, as a country that has recently joined the European Union, must identify a series of improvements necessary to be implemented for coping with European competitiveness², to innovatively develop abilities and effectively supporting the national organizations through the stimulation of the accumulation of knowledge.

Innovation³ is a global process of technological creativity and business, the transfer of new ideas or a new concept until the final stage of a new product, business or process service accepted by the market. All dealers who are providing proof of ideas, can access European funds allowing for an alternative to supplement the budgets and to increase the competitiveness through innovation.

¹ Innovation is the action whose outcome is to produce something else or to produce in a different manner. It is recognized that under the principles of Schumpeter, innovation consists in the following activities: creation of a new product, introducing new manufacturing methods, entering a new market, calling for a new material, new business organization, creating a new company image.

² See, for details, Willi Semler et al., *Financial Markets and the Macroeconomy*, Ed.Routledge, London, 2009, p.336

³ See the OECD definition from the Frascati Manual, 198.

4. Conclusions

Most European efforts made to reduce the regional disparities within the EU are achieved by the cohesion policy. These efforts are evidenced through conditional grants, and the area attached to the conditions and to the system of implementation. In particular, the Member States are required to develop a medium term strategy for the use of resources to co-finance the European aid through national resources, to work in partnership at national, regional and local levels and to comply with the EU laws and policies. These conditions led to the development of a common management system used at the European, national, regional and local level.

In the current economic context the number of economic operators having difficulty in supporting their sources of investment for modernization and development activities is increasing, including difficulties in accessing credit in the financial market. Currently, the European Commission presented a plan in order to simplify the procedures to participate in the EU funded research projects. The overall objective of this plan is to create a transparent and attractive participation for the best researchers and innovative companies in Europe and beyond¹.

It is considered essential for the European research sector to exploit their full potential, considering the need to consolidate the economic recovery and develop new sources of growth and jobs to replace those lost during the crisis. It is necessary that the best scientists and most innovative companies should join them.

FP7 has proved to be very attractive for the research community: since 2007, 33,000 proposals were received and almost 7000 projects have been funded, and almost all European universities are participating in this program. Several concrete measures were taken to simplify the process, the same way during the FP7 establishment as during its development. For example, FP7 has introduced a new Guarantee Fund and a unique registration facility, allowing organizations to apply for funding for several

¹ See, for details COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS - SIMPLIFYING THE IMPLEMENTATION OF THE RESEARCH FRAMEWORK PROGRAMMES COM (2010) 187 Brussels, 29 April 2010.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

projects in different years and register only once. Currently, eight out of ten participants in FP7 are exempt from ex-ante verification of the financial capacity, and three of four participants no longer have to provide certificates regarding the financial statement required for regular applications.

To enhance competitiveness through innovation,¹ we believe that all those who provide proof of ideas, can and should access the EU funds in the period until 2013 as an alternative to supplement the budgets which we all want bigger, and through preventative measures, to reduce the phenomenon of tax evasion which Executive is ultimately forced to take.

References:

Charlie Karlsson et al., *New directions in Regional Economic Development*, Ed. Springer, Berlin, 2009

Willi Semler et al., *Financial Markets and the Macroeconomy*, Ed. Routledge, London, 2009

xxx COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS - SIMPLIFYING THE IMPLEMENTATION OF THE RESEARCH FRAMEWORK PROGRAMMES COM (2010) 187 Brussels, 29 April 2010

xxx The Fourth Report on Economic and Social Cohesion European Commission (SEC (2007) 694

xxx National Institute of Statistics, *International Trade in Goods*

¹ See, for details, Charlie Karlsson et al., *New directions in Regional Economic Development*, Ed. Springer, Berlin, 2009, p.8

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

TEACHING ENGLISH TO PUBLIC ADMINISTRATION SERVANTS
EUROPEAN STRUCTURAL FUNDS CO-FINANCED PROJECT
ENGLISH LANGUAGE - A BRIDGE TO THE EUROPEAN UNION

Lavinia NĂDRAG¹
Onorina BOTEZAT²

Abstract:

*This paper presents both the benefits of the ECL examination and The English Language - A Bridge to the European Union, a project co-financed by the European Union, a seven-month partnership between "Spiru Haret" University and Hârșova City Council. The project is striving to harmonize local and national interests with European Union economic and social structures, to promote, develop and improve cooperation and coordination with such structures through **English**. The main idea is that this particular language should be learnt by the people who work for local and central public administration, thus the city clerks will be able to improve their knowledge of English, their reading, speaking, listening and writing skills in order to get easier access to documents in English. After a 72 hour course, the learners took the ECL examination either for A2 or B1 level.*

Key-words: English, ECL examination, European Structural Funds.

1. *The English Language - A Bridge to the European Union* [5] is a project proposed and run by a team of professors [1] willing to apply their knowledge to practice in order to help local community. Although they teach and do research in various fields, they joined their efforts, through English, in 2009, in a common, interdisciplinary project. It is actually a partnership between a Romanian university and a Romanian city council. The teaching staff provides the "know how" in order to train city clerks and make them better prepared for their job. The project involves courses

¹ "Ovidius" University, Constanța.

² "Spiru Haret" University, Constanța.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

in English, management, environment protection, informatics, communication, European law, accounting; workshops, conferences, and a council clerk exchange in a neighboring country - Hungary.

Various European programmes represent invaluable help and source of experience for universities in Central and Eastern Europe. All universities welcome the chance to be involved in numerous projects that introduce workers of different fields to the area of European cooperation. Josef Hynek and Antonín Slabý (2001) describe their projects, their development, evolution of partnership, the problems which arose and were solved. The main stress is given to expertise obtained, methods of assessment, persistent links and their influence on integration to EU educational and research programmes, through English language.

According to the official contract, *The English Language – A Bridge to the European Union* is a project co-financed by the European Union, a seven-month partnership between the Romanian private university *Spiru Haret* and Hârşova City Council. The initiators and promoters have set bold, demanding objectives, tasks and follow-up activities.

The project is striving to harmonize local and national interests with European Union economic and social structures, to promote, develop and improve cooperation and coordination with such structures through **English**. The idea is that this particular language should be learnt by the people who work for local and central public administration because English learning can lead to:

- better, and efficient public administration services. The clerks will be able to communicate in English appropriately, fluently, both orally and in writing with potential business partners for the benefit of the local community;
- more and more exchanges of clerks all over Europe in order to learn how public administration problems and issues can be better dealt with;
- applying for more and more projects which can lead to interregional and intercommunity development.

The project has as a main aim the training of city council clerks, through courses in English, which can contribute to better investments in human resources, higher organizational efficiency and better services provided by the city council on a local, regional, and even national basis, in

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

order to implement educational, economic, and social reforms.

The city clerks will be able to improve their knowledge of English, their reading, speaking, listening and writing skills in order to get easier access to documents in English and mass-media. On the other hand, a minimum specialized vocabulary will help them discuss, and find solutions to problems involving: social and economic issues, European law, environment protection, equality, communication, computerization, business management.

Besides courses, the project will rely on problem solving activities, conferences, an international exchange with clerks from a city council in a neighboring country, like Hungary.

Hopefully, the project will carry out studies that can assist local communities in their attempts to economically develop the region, especially agriculture and tourism.

2. After many years of professional preparatory work, in 1992 the Member States of the European Union established a consortium, centered in London. Its task was to develop a set of standardized language tests in the languages of the Member States of the EU. In accordance with the EU unification policy, the Member States that formed the consortium wanted to ensure equivalency and recognition of the certificates in each language without having to be validated on a national level.

The ECL Consortium [3] is an association of institutions representing European languages. Its aim is:

- to promote the mutual teaching of the languages of Europe (with special respect to the less widely taught and used languages), both in and outside the school context by developing and disseminating a standardised language course system;
- to provide unified, reliable and valid *standards for the assessment* of attained language knowledge with the help of the *ECL language exam*, a *standardised* testing system adapted to the languages of the member states of the European Union and those of the candidate countries;
- to provide *the comparability of certificates obtained and exam results achieved* in the individual languages for both the candidates and the users with the help of the *ECL exam* in accordance with the harmonisation objectives of the European Union.

The essence of standardization lies within the construction of the exam tests, the examination, results evaluation and the bestowment of

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

graduation diplomas based on a set of well-defined principles within a single examination system.

The adaptation of standards for 15 European languages has been performed, based on which the attainment tests are constructed in each language and the ECL exams proceed. The professional responsibility for the ECL language tests is assumed by a prestigious university from the country of origin of each language, which creates the tests and evaluates the papers. Based on the uniform criteria established in the first stage of standardization, ECL exams can be taken in English, German, Spanish, Italian, Croatian, Polish, Slovak, Hungarian, and Romanian and are recognized at a European and international level. The ECL exam's environment is the European Union, however, due to its general aspect it can easily be taken by South or Central American candidates.

The ECL examination system is open to every social category, from students to adult employees. It tests the oral and written capacity to use language in everyday communication on practical, professional and personal subjects, at different degrees of complexity. The ECL exam is useful in the international recognition of language skills, in the attestation of foreign language skills required to pursue studies, do research and seek employment in European countries or anywhere else in the world. It is advantageous for pupils, students, employees and adults who study multiple languages and wish to possess an equivalent language exam portfolio. The ECL exam is a "language passport" that aids in the international recognition of achievements in language study and of different linguistic and multicultural experiences.

The ECL Consortium's efforts regarding language teaching and motivation of language learning are very much appreciated by the competent EU forums, proof of which are its moral appreciation and the allocation of permanent funds for the development and expansion of the ECL examination system.

EUROCENTER AMOBA [2] is the operator of the ECL program in Romania, as a National Examinations Center (NEC). The National ECL Exam Centre co-ordinates the language teaching provided in the framework of the standardised ECL preparatory courses and the organisation and conduct of the ECL exams. University *Spiru Haret* Bucharest is one of the 33 examination test centers in Romania.

For the purpose of our project, the team analyzed different types of

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

internationally recognized types of testing (see Sullivan, Zhong 1998 for TOEFL): Cambridge ESOL, TOEFL, ECL exams. For all reasons mentioned above, we have chosen the ECL examination.

Tests (see Ur 2003, 242-259) in the foreign language teaching field serve specific educational purposes.

Clark (1972) places foreign-language testing activities into the following categories:

- *prognostic testing*, i.e. 'aptitude or achievement test scores, school grades, teacher ratings [...] used to estimate or "predict" the probable degree of success' (Clark 1972: 9);
- *achievement testing*, i.e. 'any skills testing activities which are based on the instructional content of a particular language course and are intended to measure student acquisition of that content' (Clark 1972: 25);
- *proficiency testing*, i.e. the real-life use of language competencies;
- *knowledge testing*, i.e. testing "culture" of the foreign-language country, its literature, and the foreign language as a subject matter (p. 133).

According to McNamara (2008), language tests differ in respect to test *method* (paper-and-pencil language tests and performance tests) and test *purpose* (achievement and proficiency tests).

Students may prepare for the ECL exams either within the framework of a standardised ECL exam preparatory course co-ordinated by the *Regional ECL Exam Centres* or within other language courses. The language teaching course of 72 hours provided by the project *The English Language - A Bridge to the European Union* was designed as both a preparatory course for the effective and professional preparation for the ECL exam and a language knowledge based course.

Our students were divided into two groups: beginners and intermediates. The first group was trained for the A2 level exam and the second one for the B1 level exam. For the guided course the NEW HEADWAY by Liz & John Soars (Beginner - Student's Book and Elementary - Workbook, Oxford University Press) was chosen. Besides the 72 class hours course, students had 60 hours of self study.

The main objective was to develop the students' ability to understand and express him/herself in the spoken and written language,

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

using basic skills, in everyday situations requiring a simple and direct exchange of information. Thus the primary objective was to enable the candidate to act in the foreign language context/situation, to communicate in everyday situations requiring a simple and direct exchange of information.

The students were trained to establish and maintain communication (respecting spelling rules in writing), to give and receive personal information, to identify and describe people and things, to relate actions in time.

The syntax matters were correlated to the A level of European Framework of Reference for Languages as follows: positive statements and negative statements, open-ended and yes/no questions, polite requests, verbs and prepositions, use of adjectives, use of adverbs of time, place, frequency, manner, use of modal verbs, co-ordinate sentences, use of direct and indirect objects, use of infinitive, use of basic conjunctions (and, but, however, because), use of numerals, use of relative and possessive pronouns, the word order of simple sentences. The basic vocabulary related to everyday situations and to the communicative tasks was strengthened on morphology structures as simple and past tenses, verbs *be* and *do*, pronouns, basic prepositions, quantifiers and numbers.

In addition to the objectives described for level A, the students who applied for the B1 level exam were trained to communicate in a variety of situations and to express personal opinions on familiar topics, to express and respond to feelings such as surprise, happiness, sadness, interest and indifference, to give instructions, to make proposals, suggestions and invitations, to express belief, opinion, agreement and disagreement, intention and discuss events and experiences from the past.

They were encouraged to form imperatives, positive and negative structures, statements with infinitive and gerund, compound and complex sentences, question tags, to use clauses of time, manner, place, purpose, exclamations, and linking devices.

They were introduced to other tenses, such as present perfect, conditional, continuous tenses, past perfect, as well as modals (can, must, may, might), passives, possessive pronouns (statements and interrogatives), comparative and superlative.

Above all, they studied standard British English, extended to include some current colloquialisms.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

After passing the complex exam for B1 level, from 11 students 9 got a performance of 91 to 98 % and only two obtained a lower score, respectively 89% and 86%.

From 39 students trained for A2 level exam, two chose only the written exam and passed it successfully and the rest took the complex exam with a performance range between 73% and 93%. (see fig.1)

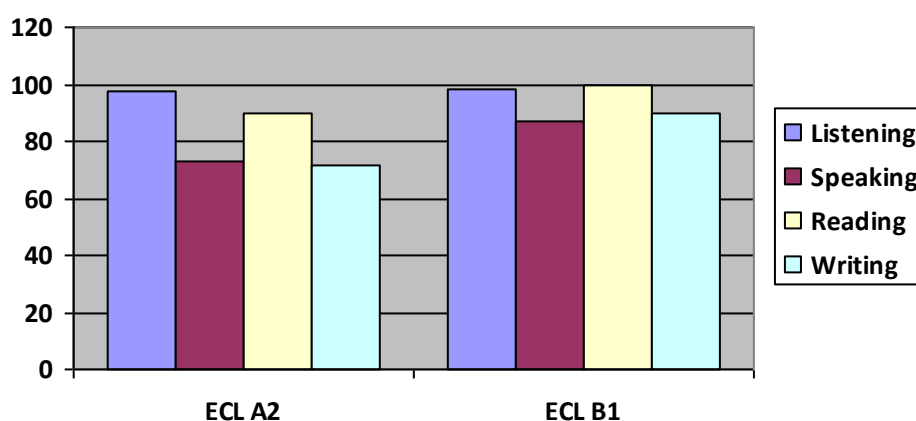


Fig. 1

Conclusions

Any strategy of public administration education should be based on both: competency needs analysis and training needs analysis, which is not easy in the context of rapidly changing economic and social environment. It is particularly difficult in the context of economic crises, which are imposing budgetary restrictions and revision - often reduction - of public administration role, functions, modes and scope of intervention. An adequate institutional framework for strategic human resource development closely interconnected with the administrative reform and modernization process is strongly needed. The project *The English Language - A Bridge to the European Union* is making one step forward in specialized training activities related to the specific field of Civil Service, developing public sector human resource and delivering demanded communicational skills, thus understanding the modern public sector

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

competency needs in acquiring English language knowledge.

Notes

1. The team consists of specialists in teaching English (Lavinia Nădrag, Camelia Boarcăș, Onorina Botezat), in Informatics (Claudiu Chiru), Statistics (Gabriela Neacșu), Economics (Cristian Nicolae), Communication (Olga Duțu), Accounting and auditing (Liana Elefterie), Management (Pompiliu Golea and an ISO company), Environment protection (Alexandru Bologna), European law (Roxana Drumea) and others. The activities are supervised by a team from the Management Authority in the Ministry of Administration and Interior.

2. In Romania, the National Examination Centre is Eurocenter Amoba Training Center in Sfântu Gheorghe.

3. The information about ECL is retrieved from the website <http://www.ecl.org.ro/home/>

4. *The Secretariat of the ECL Consortium: UNIVERSITY OF PÉCS, Foreign Language Centre*, H-7633 Pécs, Szántó Kovács J. u. 1/b. www.ecl-test.com * <http://inyt.pte.hu>

5. The web site of the project - <http://engleza-ap.ro/>

References:

1. Clark, L.D. John, *Foreign Language Testing: Theory and Practice*. Philadelphia, The Center for Curriculum Development, Inc., 1972.

2. Josef Hynek; Antonín Slabý, *European Journal of Engineering Education*, 1469-5898, Volume 26, Issue 3, 2001, Pages 255 - 266

3. McNamara, Tim. *Language Testing*. Oxford University Press, 2008.

4. Sullivan, N. Patricia, Grace Y.Q. Zhong. *Obținerea rezultatelor optime la testul TOEFL*, București, Ed. Teora, 1998.

5. Ur, Penny, *A Course in Language Teaching. Practice and Theory*, Cambridge University Press, 2003, pp. 242-259.

PUBLIC ADMINISTRATION & REGIONAL STUDIES
3 rd Year, No. 1 (5) - 2010
Galati University Press, ISSN 2065 -569X
**TERRITORIAL DISPARITIES OF THE NATURAL MOVEMENT OF
POPULATION IN GALATI COUNTY DURING THE
POSTCOMMUNIST PERIOD**

IULIAN ADRIAN ȘORCARU¹
Dunarea de Jos University, Galati

Abstract:

Galati is known as one of the counties in which most of the phenomena and demographic processes experienced over time values above the national average, the demographic vitality of the county being determined first of all, before 1989, by Galati city's economic development and secondary by Romanian pro-natalist policies.

The repeal of the latter, considered rightly forced, but mainly lack of strong and coherent policies to boost birth in the "90s, generated a continuous decrease of demographic vitality of Romania and also Galați County, the values of components of population natural movement being now below the national average.

Keywords: demographic vitality, population system, birth rate, natural balance.

1. Methodological aspects

The study aims to identify and reflect territorial disparities of the natural movement of population in Galați County according to the distribution of values of demographic indicators specific to each administrative unit for 4 years (1989, 1992, 2002, 2008). It also draws attention upon their trend values by reporting on national and county average. Finally, as a result of this approach, we followed the classification of administrative units in different types and subtypes in line with the demographic behavior.

¹ Iulian Adrian Șorcaru, "Dunarea de Jos" University, Faculty of Economic Sciences, 59-61 Nicolae Bălcescu Street, 800001 Galati, Tel./Fax: +40 236 460467; Tel./Fax: +40 236 493370, Mobile: +40 745256941, e-mail: iulian_sorcaru@yahoo.com

2. Birth Rate

The active element of the population system, birth rate, although recorded after 1989, downward values in the county, was located above the national average by 2008. Thus, in 1989, 1992 and 2002, the county birth rate exceeded the national value with 2,8 ‰, 2,4‰ and 0,8 ‰, but for 2008 it was 0,4 ‰ lower. The same trend is recorded in urban and rural areas of the county, values being above the national average birth (urban and rural) by 2008.

Returning to the county level, the analysis of urban values on the 4 moments reveals the following conclusions:

- Galati city recorded for all years a birth rate below the average of the country, national urban areas and national counties;

- the other three urban settlements (Tecuci, Tg. Bujor, Beresti) in the county recorded birth values above the urban average of the county in 1989;

- in 1992 and 2002 the number of cities whose birth is above the county urban average reduces to 2 (Tg. Bujor and Beresti);

- 2008 marks a return of Tecuci City whose birth rate (10,5 ‰) is above the urban average, county and country average, its place among the urban settlements with a birth rate below the urban average of the county being taken by Beresti City which recorded one of the lowest birth rates in the county (5,9 ‰);

- Galati and Tecuci cities have recorded an increase in birth rates since 2002, unlike cities (Tg. Bujor and Beresti) whose birth rate continues to decline by almost 50% for Beresti city.

The analysis of rural values in the 4 times reflects the following situation:

- reducing by half the number of parishes with birth values above the rural average of the county (30 parishes-50% in 1989; 25 parishes - 41,6% in 1992; 22 parishes- 36,6% in 2002; 17 parishes- 26,5 % in 2008);

- maximum and "huge" value situated on an upward trend recorded by the same parish -Brăhăsești- (33,2 ‰ in 1989; 26,6 ‰ in 1992; 24,7 ‰ in 2002; 35,4 ‰ in 2008);

- minimum and decreasing value, zero in 2008, recorded either by the parishes surrounding the urban settlements, either the new ones created after 2004 (1989-Șendreni with 11,5 ‰; 1992- Vânători with 9,2 ‰; 2002- Corod with 5,3 ‰; 2008- Suhurlui with 0 ‰).

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

The analysis of the birth rate evolution for each parish allowed the identification of the following types and subtypes:

- **parishes with falling birth rates during the whole period (34 parishes) with the following subtypes:**

- parishes with falling birth rate $\leq 50\%$: 12 parishes (Bălăbănești; Cuca; Frumușița; Independența; Liești; Rediu; Smârdan, Suceveni, Țepu, Tulucești, Valea Mărului, Vlădești);

- parishes with falling birth rate between 50-60%: 11 parishes (Băleni, Corni, Cosmești, Costache Negri, Fârțanești, Grivița, Matca, Nicorești, Oancea, Pechea);

- parishes with falling birth rate between 60-70%: 9 parishes (Bălășești, Băneasa, Cudalbi, Foltești, Fundeni, Măstăcani, Nămolosa, Piscu, Umbrărești);

- parishes with falling birth rate $\geq 70\%$: 2 parishes (Drăgănești, Movileni).

- **parishes with fluctuating birth rate (22 parishes) with the following subtypes:**

- parishes with growth trend: 14 parishes (Barcea, Berești-Meria, Brăhășești, Braniștea, Corod, Ivești, Jorăști, Munteni, Scânteiești, Șendreni, Slobozia Conachi, Tudor Vladimirescu, Vânători, Vârlezi);

- parishes with constant values: 2 parishes (Ghidigeni, Gohor);

- parishes with downward trend: 6 parishes (Buciumeni, Cavadinești, Cerțești, Drăgușeni, Priponești, Schela)

2. Death Rate

Galați County recorded an average death rate below the national average, confirming the demographic vitality of the Moldavian Counties, although the number of deaths was been continuously rising since 1989. However, after 2002, birth rate in Romania recorded a downward trend, Galati County and most of its administrative units following the same direction.

The evolution of death rate in urban areas of the county reflected:

- growing death rate during 1989-2002 for Galati, Tecuci and Berești while Tg.Bujor, although death rate is increasing, its progress is more fluctuating;

- slight decrease between $0,2 \text{ ‰}$ and $2,2 \text{ ‰}$, for all urban settlements since 2002;

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

- values of death rate below the urban average of the county recorded by Galati and Tecuci in all 4 years;
- values of death rate above the urban average of the County for Berești during the whole period and only for the first 3 years for Tg. Bujor.

The evolution of values in rural areas reflected:

- 10% increase over the number of parishes with death rate above the rural average of the County (26 parishes-43% in 1989, 27 parishes-45% in 1992, 31 parishes-51,6% in 2002, 34 parishes - 53.1% in 2008);
- maximum, high and increasing value, recorded either by parishes of the County border with Moldova , or those with reduced accessibility of its center (Oancea- 19,3 ‰ in 1989 and 25,1 ‰ in 1992; Băleni- 25,3 ‰ in 2002; Smulți- 25,8 ‰ in 2008);
- minimum and fluctuating value, very low and continuously decreasing (Pechea- 5,6 ‰ in 1989; Drăgănești- 7,5 ‰ in 1992; Brăhășești- 6,5 ‰ in 2002; Suhurlui- 2,7 ‰ in 2008).

The types and subtypes that emerged from the analysis of the death rate evolution of each parish are:

• **parishes with increasing death rate during the whole period (12 parishes) with the subtypes:**

- parishes with increasing death rate < 50%: Ivești
- parishes with increasing death rate between 50-100%: 6 parishes (Bălăbănești, Corod, Cosmești, Costache Negri, Măstăcani, Priponești);
- parishes with increasing death rate > 100%: 5 parishes (Berești-Meria, Cuca, Rediu, Slobozia Conachi, Vlădești);

• **parishes with increasing death rate between 1989-2002 and further decrease (21 parishes) with the subtypes:**

- further decrease of death rate < 20%: 12 parishes (Băleni, Drăgănești, Foltești, Fundeni, Ghidigeni, Grivița, Independența, Jorăști, Munteni, Piscu, Tudor Vladimirescu, Tulucești);
- further decrease of death rate between 20% - 40% :7 parishes (Băneasa, Corni, Fârțanești, Gohor, Movileni, Nămolosa, Scânteiești);
- further decrease of death rate > 40% : 2 parishes (Cerțești, Șendreni)

• **parishes with fluctuating death rate with the subtypes:**

- parishes with growth trend: 14 parishes (Bălășești, Brăhășești, Braniștea, Buciumeni, Cudalbi, Liești, Matca, Nicorești, Pechea, Schela,

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

Smulți, Suceveni, Valea Mărului, Vânători);

- parishes with downward trend: 8 parishes (Barcea, Cavadinești, Drăgușeni, Frumușița, Oancea, Țepu, Umbrărești, Vârlezi)

3. Natural Balance

Spatio-temporal dynamics of the natural balance directly influenced by the evolution of natality and mortality has allowed classification of urban settlements in the county in the following types and subtypes:

• **urban settlements with natural increase between 1989-2002 and further natural decrease, with the subtypes:**

- increasing further natural decrease: Berești

- decreasing further natural decrease: Galați, Tg. Bujor

• **urban settlements with predominantly natural increase:** Tecuci

In rural areas I have identified the following types and subtypes:

• **parishes with continuously natural increase: 6 parishes** (Brăhășești, Drăgușeni, Ghidigeni, Matca, Schela, Smârdan);

• **parishes with predominantly natural increase (13 parishes), with the subtypes:**

- parishes with positive values at present: 5 parishes (Barcea, Cerțești, Munteni, Șendreni, Vânători);

- parishes with negative values at present: 8 parishes (Costache Negri, Drăgănești, Grivița, Ivești, Pechea, Slobozia Conachi, Umbrărești, Valea Mărului)

• **parishes with predominantly natural decrease (17 parishes), with the subtypes:**

- parishes with growth trend: 6 parishes (Buciumeni, Cavadinești, Foltești, Fundeni, Priponești, Smulți);

- parishes with downward trend : 11 parishes (Băleni, Băneasa, Berești-Meria, Gohor, Independența, Jorăști, Nămoloașă, Scânteiești, Tudor Vladimirescu, Tulucești, Vârlezi);

• **parishes with continuously natural decrease: 3 parishes** (Oancea, Suceveni, Țepu)

• **parishes with natural increase between 1989-2002 and further natural decrease, with the subtypes:**

- increasing further natural decrease: 13 parishes (Bălăbănești, Bălășești, Corni, Corod, Cosmești, Cuca, Cudalbi, Liești, Măstăcani, Nicorești, Piscu, Rediu, Vlădești);

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

- decreasing further natural decrease: 4 parishes (Braniștea, Fârțănești, Frumușița, Movileni)

4. Conclusions

Although 1989 was a major "break" for the Romanian society, deeply felt also by the demographic component, after 2002 Galati County recorded a slight increase in birth and natural balance rates due to a weaker death rate, growth recorded by an increasing number of administrative units both in urban and in rural areas.

However, many rural settlements preserve the demographic decline begun after 1989, the natural decrease being amplified by a negative migration balance felt in urban areas which maintain the downward trend of the demographic component of Galati County.

References:

1. **Cândea Melinda, Bran Florina, Cimpoeru Irina** (2006) - *Organizarea, amenajarea și dezvoltarea durabilă a spațiului geografic*, Editura Universitară București
 2. **Erdeli G., Cucu, V.** (2005), *România-Populație. Așezări umane, economie*, Editura Transversal, București
 3. **Erdeli G., Dumitrache Liliana** (2009) - *Geografia populației mondiale*, Editura Universitară, București
 4. **Ianoș I.** (2000)- *Sisteme teritoriale*, Editura Tehnică, București
 5. **Preda Mircea** (2005)- *Comunele și orașele României*, Editura All Beck, București
 6. **Rotariu, T.** (2009) - *Demografie și sociologia populației Structuri și procese demografice*, Editura Polirom, Iași
 7. **Ungureanu A., Țurcănașu G.** (2008)- *Geografia așezărilor umane*, Editura Performantica, Iași
- *** *Populație_Demografie Județul Galați*, Ediția 2009, Direcția Județeană de Statistică Galați

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

Fig.1. Spatio-temporal dynamics of birth rate in Galați County between 1989-2008

(Note: processing by Iulian Șorcaru according to DJS Galați)

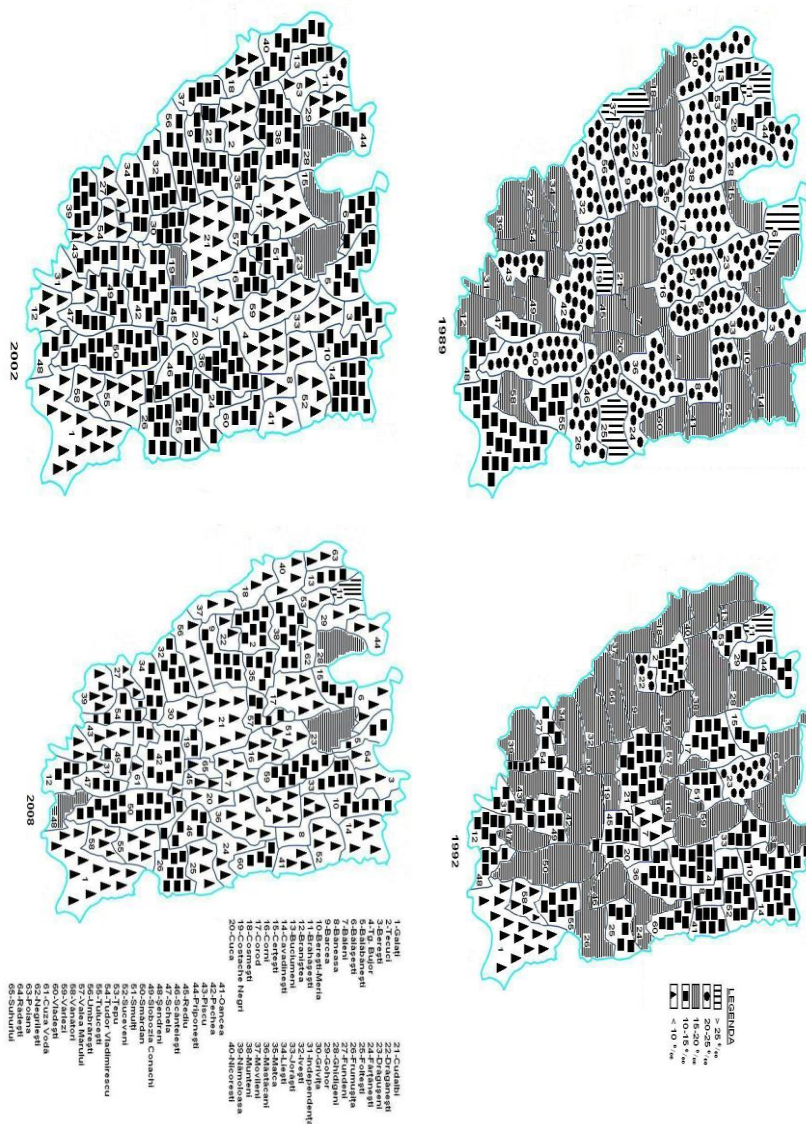


Fig.2. Spatio-temporal dynamics of death rate in Galați County between 1989-2008

(Note: processing by Iulian Șorcaru according to DJS Galați)

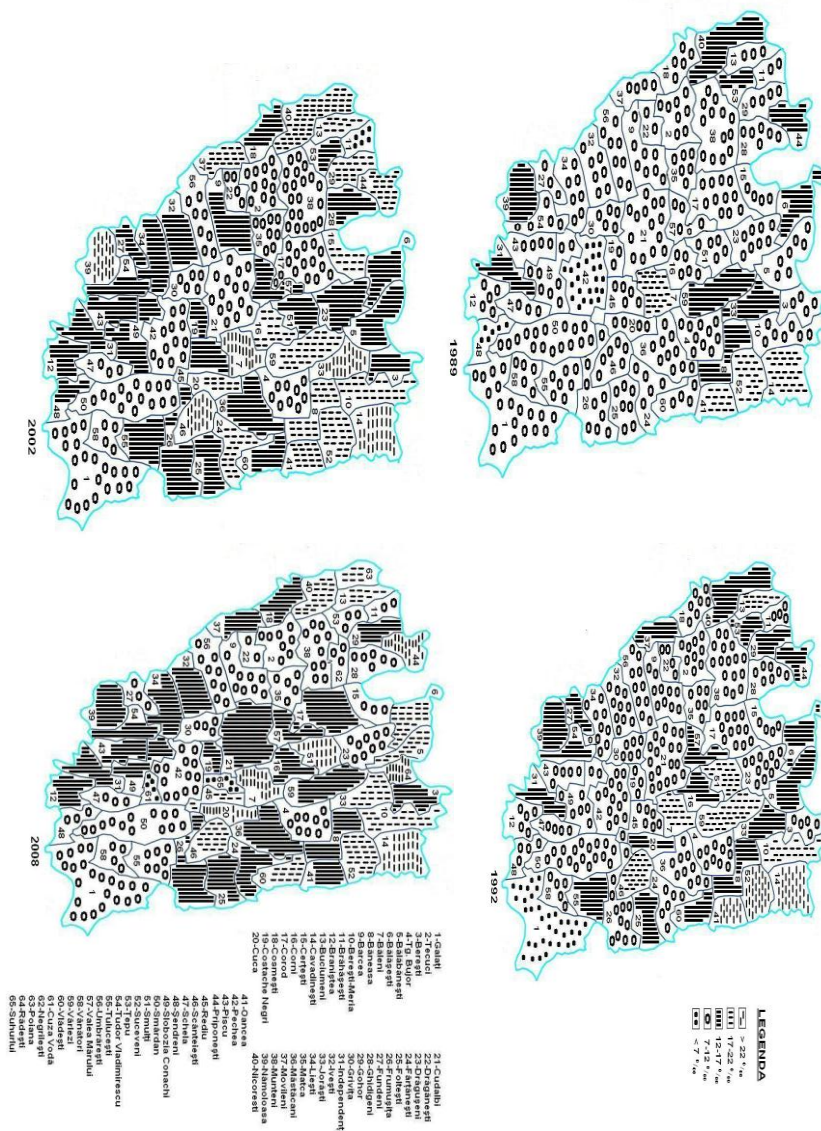
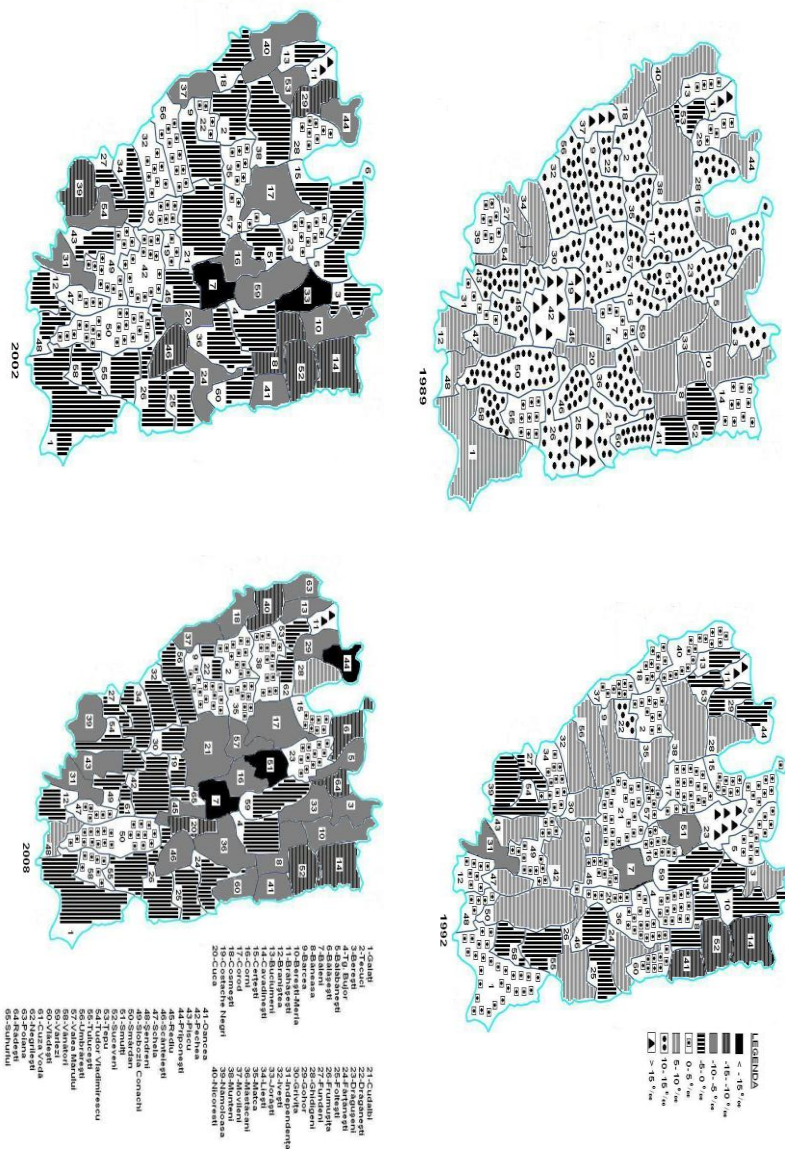


Fig.3. Spatio-temporal dynamics of natural balance in Galați

PUBLIC ADMINISTRATION & REGIONAL STUDIES
 3 rd Year, No. 1 (5) - 2010
 Galati University Press, ISSN 2065 -569X
County between 1989-2008
 (Note: processing by Iulian Șorcaru according to DJS Galați)



PUBLIC ADMINISTRATION & REGIONAL STUDIES
3rd Year, No. 1 (5) - 2010
Galati University Press, ISSN 2065 -569X
**ROMANIA'S REGIONAL POLICY: PROGRAMMING AND
FINANCIAL INSTRUMENTS**

Ph.D. candidate Orac Camelia Mădălina,
Dunarea de Jos University, Galatz

Abstract:

The paper aims at surveying the implementation of the national policy of regional development, achieved in concord with Romania's development objectives and general priorities, as well as the objectives of EU in the area of economic and social cohesion. The implementation of regional policy is achieved by programming instruments (the National Reference Strategic Framework and the National Development Plan) aiming at turning into practice the economic and social development strategies and activating the European financial instruments in view of maximizing the benefits brought by the European cohesion policies. The National Reference Strategic Framework negotiates the state access to the structural and cohesion funds, while the National Development Plan 2007-2013 focuses on reducing the development imbalance between Romania and the member states of EU, in view of raising the GDP per capita.

Keywords: programming financial instruments, reducing existing disparities among regions, revitalization of poor areas, The National Reference Strategic Framework, National Development Plan 2007-2013

JEL Classifications: R11

Romania's policy of regional development became clearly delineated within the preparation process with the view of administering the community funds related to candidate states, within the EU joining negotiations. The association process with the integrating Romania into the EU took place in an institutional framework, starting on February 1, 1993, when the Association Agreement of our country to EU (the European Agreement) was signed¹.

¹ Romania's association Agreement to EU came into force 2 years later, on February

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

On June 22, 1995, Romania officially filled its joining application, and in December the same year, our country presented a detailed strategy on adopting the community acquis, the first evaluation of meeting the joining criteria being performed by EU in Agenda 2000 - document adopted in July 1997.

An important moment in the relation between Romania-EU is represented by the European Council of Helsinki, in December 1999, which adopted the decision of starting the adhering negotiations with our country, a process initiated on February 15 2000 and officially ended on December 17, 2004, at the European Council in Brussels.

The EU Accession Treaty of Romania was signed on April 25 2005, when the European Enlargement Commissioner, Olli Rehn, stated: "*Signing the Accession Treaty is a well deserved moment of celebration, but not the end of the process. There is still need for hard work to continue and implement the reforms until the accession date estimated to be January 1, 2007.*"

In this context it may be said that the policy of regional development in Romania has a relatively recent history, 1998 marking the implementation of the legal framework of the Romanian regional development policy by Law no. 151/1998¹, setting the objectives, involved institutions and specific instruments for the promotion of regional development policy. According to the Methodological Norms of applying this law², the Romanian regional development is defined as "*the totality of the policies of the authorities of central and local public administration, elaborated in view of improving the economic performance of certain geographical areas constituted into development regions benefiting from the support of the government, the European Union and other institutions and authorities at the national and international level*".

The chapter of negotiation related to the national policy in the field- **Chapter 21 (Regional policy and coordination of structural instruments)** was opened in March 2002 and settles the community acquis of regional development and its implementation modalities. The negotiations were closed in September 2004.

1 1995.

¹ At the same time with the coming into force of Law no. 315/ 28 June 2004 (MO no.577/ 29 June 2004), this law was abolished.

² H.G. no. 634/1998.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

The general objectives of the national policies of regional development refer to:

Diminishing the existing regional imbalances;

Stimulating balanced development;

Revitalizing the poor areas;

Preventing the occurrence of new imbalances;

Preparing the institutional framework for meeting to the criteria of integration into the EU structures and accessing the Structural Funds and the Cohesion Fund;

Integrating the sectorial policies at a regional level and stimulating the domestic interregional cooperation, contributing to the economic and social progress.

The basic objectives of the regional development policies are stipulated in Art 3 of Law no. 315/2004 on Romania's regional development:

Diminishing the existing regional disparities by stimulating balanced development, the speedy recovery of delays in the economic and social field of the less developed areas, as a result of historical, geographic, economic, social, political, as well as preventing the occurrence of new imbalances (art. 3-a);

Correlating the governmental sectorial policies at a regional level by stimulating initiative and taking advantage of local and regional resources, in view of durable economic and social development and their cultural development (art. 3-b);

Stimulating the trans-boundary interregional cooperation at a domestic and international level, including within the euro regions, as well as the participation of development regions in the European structures and organizations promoting their economic, social and institutional development, in view of achieving common interest projects, according to the international agreement to which Romania is a party (art. 3-c).

As a result, the implementation of the national policy of regional development is achieved in concord with the general development objectives and priorities of Romania, as well as the EU objectives in the field of economic and social cohesion.

The institutional framework of regional development in Romania was first created by Law no. 151/1998 on regional development in Romania. The subsequent amendments and adaptations regarding

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

institutions activating in the field of regional development are included in Law no. 315/2004 on regional development in Romania .According to the valid legislation, the institutional structures necessary for the elaboration and implementation of an integrated policy of regional development in Romania act on two levels: regional and national.

At a *territorial level*, each region of development has a Council of Regional Development (C.R.D.) and an Agency of Regional Development (A.R.D.).

The Councils of Regional Development consist of the presidents of County Councils and one representative of each category of municipal, town and village Local councils in each county of the region¹.

CRD coordinates the ARD which activates in each development region, among its attributions being:

Analyzing and approving strategies and programmes of regional development;

Elaborating in partnership the National Development Plan, containing the priorities and multiannual measures of financing the national objectives of the economic and social cohesion;

Approving the projects of regional development, selected at a national level;

Submitting to approval in view of financing the proposed project portfolio which is subject to national by the National Council of Regional Development (NCDR);

Monitoring the use of funds allotted from the national Fund of Regional development;

Coordinating and promoting the development of regional partnerships;

Advising the reports of semestrial activity drawn up by the Agencies for Regional Development;

Advising the documents² drawn up by the ARD with third parties in the specific activity field, including the similar institutions within the EU;

¹ In the development region Bucharest - Ilfov, the CRD is made up of the president of the Ilfov County Council, the General Mayor of Bucharest city, one representative for each sector local council and representatives of the local councils in Ilfov, in proportion with the representatives of the sectors in Bucharest.

² Contracts, conventions, agreements, protocols, etc.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

Coordinating the advertising activities at a regional level of the regional development policies and objectives, the regional programmes financed by the EU, as well as the programmes on using regional funds providing the proper transparency and information in due time of the citizens, mainly the entrepreneurs.

In conclusion, CRD is the deliberative regional organism, without legal personality, coordinating the activities of regional development, deciding, in accordance with the National Strategy of Regional Development, the high priority objectives of developing the region and the strategy for their attainment.

The Agencies of Regional Development existing in each development region¹ represent the executive organisms of CRD. The ARDs are non-governmental, non-profit, public utility, legal personality organizations, functioning in the specific field of regional development with the following attributions:

Elaborating regional development strategies, plans and programmes, as well as plans for fund management according to the decisions of the CRD and the valid legislation ;

Achieving the technical and financial management of the regional development Fund, in view of attaining the objectives in the regional development programmes;

Technical and financial monitoring in the control of the execution of projects financed by EU within the regional development programmes, ad/ or , as the case may be, the projects within national programmes, implemented regionally through the ARD;

Evincing the stage, implementation difficulties, impact of the regional development programmes/projects, and proposing improvement measures;

Advertising at a regional level the regional development projects and programmes;

Performing through specialized personnel the secretarial duties of the CRD;

¹ In each county, except for the county where the agency is based, there is a branch of the ARD.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

Promoting at a regional level the EU policies and practices, as well as the principles at the foundations of the regional development policies;

Promoting the region, with the support of the CRD, in view of attracting foreign investments;

Collaborating with similar EU organisms and institutions and participating in implementing international projects of regional and local scope;

Promoting in partnership the projects of regional and local interest, as well as the interregional cooperation projects;

Elaborating in partnership the National Development Plan;

Collecting and centralizing data at a regional level, regarding the use of non-returnable funds allotted to the region, in view of implementing the regional development programmes.

Similarly, according to the law, "*in each county which is part of the development region, except for the county where the agency is based, there is a branch of the ARD*" (Law no. 315/2004, art.8, alin.3). At the same time, "*the ARDs in the development regions having in their structure counties situated along the common border may associate, forming regional bureaus for cross-boundary cooperation, in view of providing the administrative, financial and technical management of the cross-boundary cooperation programmes. The attributions and objectives of each regional bureau of cross-boundary cooperation are set by the statute of organization and performance to be advised by the national institution competent in the field of regional development*" (Law no. 315/2004, art.8, alin.1.1 and 1.2).

Before leaving the territorial level, one should mention the fact that for facilitating the process of analysis and monitoring of the regional development, according to the requirements of the EU, at the level of each development region, the National Statistics Institute founded a *Regional Statistics Department*, mainly aiming at implementing a system of statistic data of the NUTS II level.

At present, this system is under improvement in order to be able to respond to the economic and social exigencies at the regional level.

The institutional framework created at a national level in order to coordinate the elaboration and implementation of regional policies is made up of the National Council for Regional Development and the Ministry of Public Works and Housing Development.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

The National Council for Regional Development is the national structure of a partnership nature, activating in making decisions on elaborating and implementing the national regional development policy and strategy. NCRD is composed of the presidents of the 8 CRDs and, proportionally, state secretaries from the ministries involved in regional development, being presided over by the Ministry of Public Works and Housing Development.

Among the most important attributions of NCRD there are:

Analysis and approval of the National Development Plan;

Approval of the criteria and priorities in using the National Fund for Regional Development;

Obtaining the Government's approval for the priority programmes financed by the National Fund for Regional Development;

Monitoring the use of funds allotted to the ARDs from the National Fund for regional development, on the basis of the reports elaborated and submitted by the CRDs;

Monitoring the fulfilment of the objectives of regional development, including the activities of external cooperation of the development regions, of the cross-boundary, inter-regional, euro region type;

Approval of the financing of the projects proposed by the ARDs and approved by the CRD in the regional development programmes, in the project auctions organized at a regional and/or national level;

Analysis and approval of the activity reports submitted by the National Committee of Coordination of the PHARE Programmes - the component of economic and social cohesion, constituted on the basis of the provisions in the Financing Memorandum, and the proposals submitted by this Committee;

Elaborating proposals on the use of pre-accession funds for regional development, allotted to Romania by EU.

*The Ministry of Public Works and Housing Development*¹ (M.D.L.P.L.) through the General Department for Regional Development,

¹ The institutional organising in post-December Romania suffered permanent changes and the Romanian institutional framework is under continuous change, as well. This is the result of the mechanism of adopting decisions by the government. At the beginning, National Agency for Regional Development (NARD) was created. It had, as main objective, the definition and elaboration of the national

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

represents the coordinating organism, at the national level, of the process of elaboration, implementation and monitoring of the national policy of regional development in Romania, as well as the national development strategies.

M.D.L.P.L has the role of Management Authority for the Operational Regional Programme (POR), by the General Department of A.M. P.O.R., performing the management of financial assistance in the European Fund for Regional Development, received by Romania for this programme, as well as within certain operational cooperation programmes (PO Romania-Bulgaria; PO Romania-Serbia), within the Common Cooperation Programme Romania-Moldavia-Ukraine, the Cooperation Programme Black Sea Synergy; within certain interregional cooperation programmes: INTERREG IVC¹, EPSON², URBACT³, INTERACT II⁴, under the aegis of the General Direction of European Territorial Cooperation.

Among its most important attributions there are:

Elaborating, promoting, coordinating, administering, implementing and monitoring the policies and strategies of regional development in Romania, as well as the programmes of economic and social cohesion;

Making sure by means of specialized personnel that the secretarial duties of the NCRD are carried out properly;

Administering the National Fund for Regional Development, consisting of the amounts allotted annually by the state budget as a distinct position for the regional development policy.

strategy for regional development. In 2001, NARD was substitute by the Ministry of Development and Forecast (HG. No.16/2001). In 2003, was created the Ministry of European Integration, which covered a part of the Ministry of Development and Forecast's objectives. In April 2007, this ministry was replaced by the Ministry of Development, Public Works and Houses.

¹ Interregional cooperation programme; Romania is partner of France.

² This programme realises statistics connected to European development and territorial cohesion; Romania is partner of Luxembourg.

³ Cooperation Programme between EU cities; Romania is partner of France.

⁴ Training Program for those structures which are implied to the European Territorial Cooperation Operational Programs management and implementation; Romania is partner of Austria.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

An important role in the active institutional factors at a national level is played by the *National Statistics Institute*. It collects and centralizes the statistic data required for the foundation and supervision of the regional development policies, data sent by the 8 Regional Statistics Departments.

Romania, a country with no tradition in regional development, had to take over and permanently adapt the **instruments specific to regional policy** according to European requirements. As a result of the investigations performed, it may be stated that the instruments of regional development policy in the Romanian perimeter refer to:

" negative incentives" for localization in crowded areas and reallocation of activities in the national territory - this type of instruments was mainly applied in Great Britain, France, Germany, Greece, Italy, but at present it is of less importance, either because of the disparity reduction in the development level of metropolis areas and their surroundings, or as a result of large scale privatizations of state enterprises, which resulted in decreased governmental influence;

Creating proper infrastructure for regional development - this instrument has acquired in time an ever greater importance, especially with the advent of the EU. In order to adopt the community acquis, Romania received technical and financial assistance from various international organisms to create and develop informational, educational, consulting, professional formation systems, aiming mainly at revitalizing the Romanian business environment;

Financial incentives for the harmonious development of the region- this type of instruments aims at attracting lucrative investments, increasing the degree of employability, the balanced development of the region, etc. And it takes the form of grants, subsidies, tax exemption or reduction, facilities for amortization of the fixed capital, non-returnable financial assistance from European funds, credits from international financial institutions, financial assistance from local budgets and private funds.

A special case of financial incentives in regard of harmonious regional development is the state aid. In the context of the accession negotiations regarding Chapter 6 (Competition Policy), Romania declared as accepted the entire community acquis in force, requiring no transition periods or derogations.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

The most important legal disposition in the field of controlling and monitoring state aids in Romania is **Law no. 137/2007** (Official Monitor no. 354/ 24 May 2007), approving the **Emergency Government Decision no. 117/2006 on the national procedures regarding state aids** (OM no. 1042/ 28 December 2006) which in turn abrogates **Law no. 143/1999** on state aid (OM no. 370/3 August 1999). Also, the Competition Council adopted the **Regulations on abrogation of regulations and instructions adopted by the Competition Council regarding state aids** (OM no. 1057/ 30 December 2006) so that domestic laws become compatible with the community laws in the field.

Since January 2007, the authorization of state aids has been performed exclusively by the European Commission, the Competition Council being just the contact authority in the relations between the European Commission and the national public authorities and institutions, suppliers and beneficiaries involved in the procedures in the state aid field.

The type of subsidies practiced so far in the Romanian economy comprises 4 main schemes, employing different support means:

The first 3 schemes (poor areas¹, industrial parks² and free areas³) are based on the incentives related to taxation (fiscal incentives) to promote investments;

¹ OUG no.75/2000, approved by Law no.621/2001 (which modifies OUG no. 24/1998, approved by Law no.20/1999) covers a lot of custom and fiscal facilities for those companies which invest in less-favoured areas: Comanesti (Bacau); Bucovina (Suceava); Altin-Tepe (Tulcea); Filipesti, Ceptura (Prahova); Zimnicea (Teleorman); Albeni, Schela, Motru-Rovinari (Gorj); Hunedoara, Brad, Valea Jiului (Hunedoara); Rusca Montana, Bocsa, Moldova Noua (Caras-Severin); Stei-Nucet, Borod-Suncuius, Popesti-Derna (Bihor); Ip, Hida-Surduc, Sarmasag (Salaj); Baia Mare, Borsa Viseu (Maramures); Rodna (Bistrita Nasaud); Balan (Harghita); Baraolt (Covasna); Copsa Mica (Sibiu); Cugir, Apuseni (Alba).

² OUG no.65/2001, replaced the Law no.134/2000 about industrial parks. It brings facilities for the companies which are specialised into services infrastructure investments for the industrial operators which will operate inside the industrial park. Moreover, the "Industrial Parks" programme was started in March 2002. This programme gives financial support to those economic actors which cover at least 70% of the eligible expenditures in the projects which are focused on industrial parks and at least 50% for the soft parks.

³ This scheme is based on the Law No.84/1992, modified and completed by the

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

The 4th scheme (areas of industrial reconversion¹) involves the direct financial support of investment projects from combined sources, EU (Phare) and the state budget.

Before ending this section, one should notice that at present, according to the assessments in Brussels, the Romanian policy on **state aids** is a highly sensitive sector and therefore, in order to cope with the demands of the European Commission, it is imperative to promote a firm policy sanctioning anti-competition behaviour. Thus, more importance is attached to discouraging large scale cases, represented by the increase of indirect aids, under the form of tolerance in paying social assistance fees, accumulation of low-performance credits from banks or the presence of overdue debts.

The architectural framework of regional policy instruments impacting on the development and preparation of Romania for the adoption of the European model is represented by:

The programmes of the International Monetary Fund and the World Bank on privatization and structural reforms;

The leasing and micro-credit granting facilities of SMEs through the programmes of the European bank for Reconstruction and Development and the Micro-Financing Bank of Romania;

The programmes of the European Investment Bank on the preparation of Romania for joining EU in fields as: transportation (roads, airports, railways), energy, environment protection and SME development;

Law No.244/2004 about free zone regime, HG no.1998/2004, and individual Governmental decisions connected to the implementation of the free zones in Braila, Curtici-Arad, Constanta Sud, Galatz, Giurgiu, Sulina. It covers custom and fiscal facilities for those companies which operate inside the free zones. The Romanian free zones are located along the national borders, especially along the Danube and the maritime area.

¹ The regional development scheme implies budgetary financing for industrial recovery areas with economic growth potential, according to the HG no.399/2001 about the concentration of PHARE 2001 funds to the industrial restructuring areas which have economic growth potential and to the Law no. 315/2004 about regional development. The facilities are reflected by Phare 2001 funds and the budgetary co-financing funds, as well.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

Specialized assistance through IMF in key fields such as: modernization of the banking system, improvement of the manner of collecting and reporting statistic data, fiscal management reform;

The multilateral assistance granted to Romania through various instruments active at a European level: financial instruments, technical assistance, etc.;

Multiannual programmes of regional development financed by the National Fund of Regional Development, constituted from the sums allotted annually from the state budget as a distinct position for the regional development policy.

The implementation of the European regional policy is mainly performed by the **programming instruments**, targeting the putting into force of the economic and social development strategies and activating the European financial instruments in order to maximize the benefits brought by the European cohesion policies, in agreement with the national policies.

At a regional level, the planning process is represented by the *Regional Development Plan* (RDP). This document sets and presents the development strategy for each region in part, being the main regional instrument of concentrating the activities and efforts of the local and national authorities with the maximizing the effectiveness of the economic and social development of regions. The purpose of these documents is to provide a wide regional framework in order to maximize the benefits brought by the European policies of social and economic cohesion in agreement with the national ones. The process of RPD elaboration, actualized in defining the objectives, priorities and development measures for each region is shown in Figure 1.

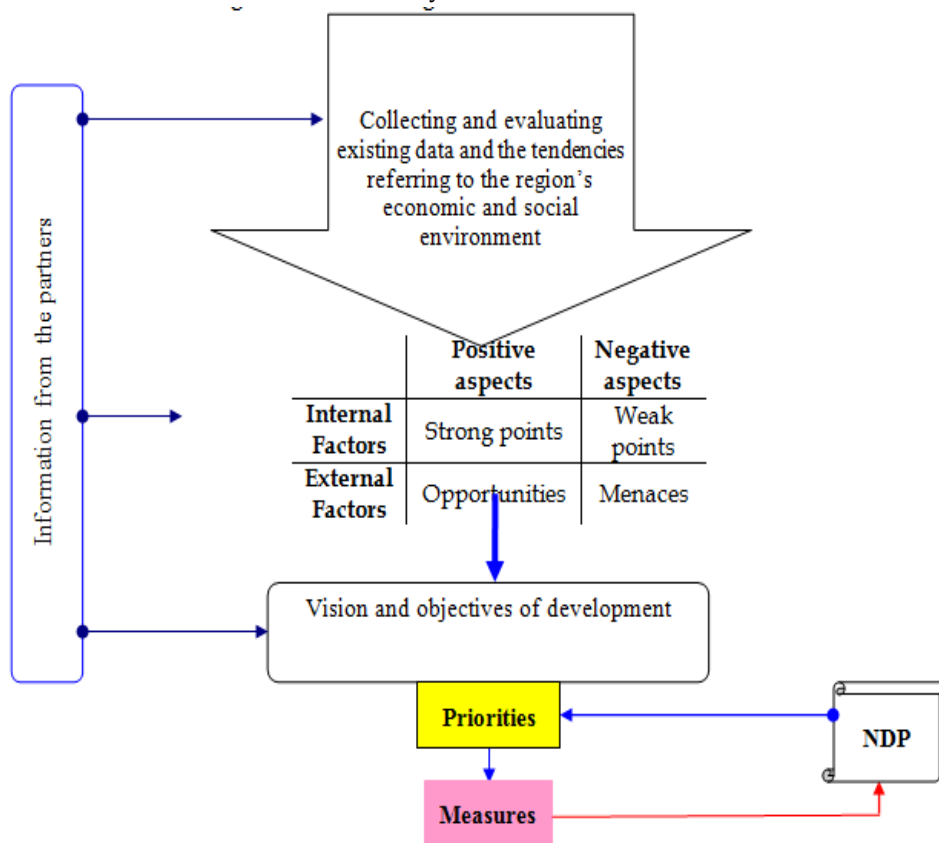


Figure 1: The process of RDPs elaboration

R.O.P. 2007-2013 observes the national strategy of regional development, stipulated in priority 7 of P.N.D. 2007-2013, whose *specific objectives* are:

Increasing region competitiveness by developing the business environment;

Supporting the local/regional economies affected by the industrial restructure and traditional underdevelopment;

Benefiting from the touristic and cultural potential of regions as a source of regional development;

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

Rehabilitation of small urban centers with a high potential of economic development, in order to become regional growth poles;

Consolidating the local authority in managing programmes and development;

Promoting interregional development at a national and cross-boundary level.

R.O.P. 2007-2013 includes the following priorities:

Developing the public infrastructure at a local and regional level (modernizing the transport infrastructure and developing the related public utilities; rehabilitation and development of the social infrastructure—education, health, etc.; developing the infrastructure of the business environment);

Supporting the diversification of local and regional economies (supporting the activities of local innovation and the development of new services for the business environment);

Developing local and regional tourism (rebuilding the tourist areas and renovating the historical and cultural heritage, developing, diversifying and promoting the tourist offer);

Urban regeneration (rehabilitation and development of the urban structure; development of the public urban services; rebuilding the abandoned areas in order to sustain new activities);

Technical assistance (supporting the implementation and management of P.O.R., supporting the POR communication strategy, study elaboration). P.O.R. is 80% financed from the F.E.D.R., co-financing coming from the state budget - only 20%.

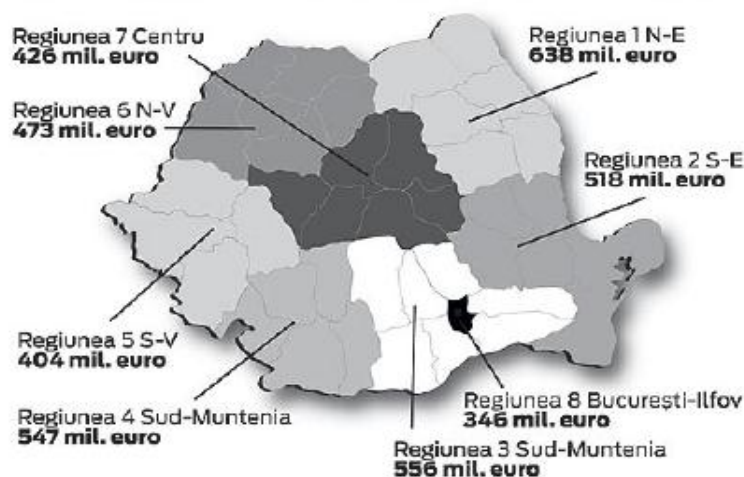


Figure 2: Financing of R. O. P.

Source: <http://www.mie.ro/index.php?p=555>

The ROP management authority is the General Direction of Regional Development within the Ministry of Public Works and Housing Development.

The financial support received by our country from EU as a member state in view of economic development is represented by the pre-accession instruments (up to 2009), the Transition Facility (up to 2010), structural instruments and complementary funds (funds from the Common Agricultural Policy and the Common Fishing Policy). The volume of available funding will be much higher than the volume received as a candidate state in the pre-accession programmes.

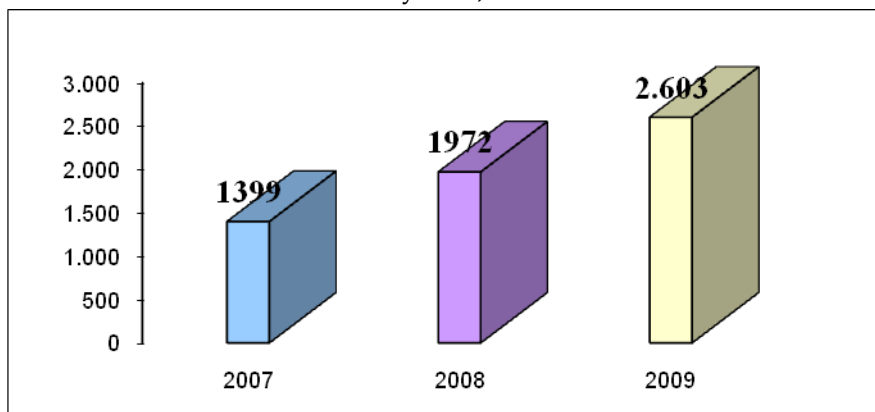


Figure 3: European financial assistance for Romania

The pre-accession instruments constituted an exercise of getting accustomed to the EU policies and procedures in view of an effective management of the funds allotted to our country as a member state. The EU financial package for Romania through the structural-type funds (Phare, ISPA and SAPARD), between 2007-2009, expressed in million Euros (in terms of 2004 prices) is increasing.

Originally founded in 1989, to the purpose of supporting Poland and Hungary in the reconstruction of their national economies, the *Phare* programme was altered periodically in point of beneficiary member countries, according to necessities on the European stage. Thus, if in 1996, the Phare programme provided financial assistance in 13 states¹, in 2000, this programme was revised, becoming the main pre-accession instrument for the 10 candidate states in Central Europe and Eastern Europe. In the same year, the 3 states in the Western Balkans² were included in CARDS programme³. At the same time with the extension of the EU in May 2004, the Phare programme focused exclusively on sustaining the regional development in Romania and Bulgaria. As a result, in the new member

¹ Albania, Bosnia-Herzegovina, Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Macedonia, Poland, Romania, Slovakia, Slovenia and Hungary.

² Albania, Bosnia-Herzegovina and Macedonia

³ Community Assistance for Balkans' Reconstruction, Development and Stability.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

states, 2003 was the last year of the Phare programming, 2004 - the year when the project contracting was finalized, and 2005 - 2006 is the period when the payments for these projects were settled.

Phare assistance is focused on 2 priorities:

Institutional development - consolidating the public management and institutions in the candidate states with the view of implementing the community acquis.

The purpose of institutional development is to support Romania in creating the institutional bases necessary for the accession to EU, a situation in which it had to adopt, apply and monitor the observance of European legislation. It also involves the development of human resources activating in these institutions.

As a result, an extremely important instrument in this sense was represented by the *institutional brotherhood*, known as "**twinning**". It consists in a close collaboration among the public institutions in Romania and the public administrations in the other member states. Thus, the Romanian public administration identified the problems in adopting the community acquis and created projects of institutional twinning presented through the network of National Contact Points for twinning, to the administrations of the member states. This administration proposed assistance offers for the problems identified and as a result of consultancy, the offer that best responded to the problems was selected¹. Once this stage was ended, there is the permanent detachment for at least one year of the specialists in the member states, known as *pre-accession counselors*. The technical assistance they provide consists in: short-term expertise, stages of professional formation, providing services such as legislation translation and interpretation.

Since 2001, classic twinning has been completed by light twinning, i.e. similar projects of institutional relations but on a short-term, of at most 6 months. Besides this, institutional development may be achieved by *service contracts obtained on the consulting markets*². About 30% of the Phare budget was allotted for institutional development.

¹ There are situations when 2 or 3 Member States cooperate in order to solve a specific problem from a state.

² Moreover, TAIEX (Technical Assistance and Information Exchange Office of the

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

Investment support:

Investments to support the application of community legislation (mobilizing investments in industry and infrastructure);

In view of joining the EU, Romania was supposed to have an appropriate infrastructure allowing the implementation of the community acquis. It required quite high investments, especially to develop the computer systems in public administration, namely equipment and software purchase, to organize public information campaigns for the population on the impact of joining the EU, to purchase equipment for the institutions involved in goods and services control according to European standards, and to buy equipment for surveillance and border control.

When the financial assistance provided by the Phare programme proved insufficient as compared to the investments proposed, it was completed by the participation of international financial institutions, an important role being played by the European Bank for Reconstruction and Development (E.B.R.D.)¹, the European Investment Bank (EIB)² and the World Bank.

Investments in the social and economic cohesion (promoting economic and social cohesion).

The EU regional policy is a policy of European solidarity and, through its instruments, provides support to the less developed regions and the population inhabiting them. In this sense, the Phare programme acts in fields aiming at creating jobs, increasing competition, improving the

European Commission) offers expertise under community acquis. SIGMA programme (Support for Improvement of Governance and Management in Central and South-East Europe) was created by European Commission and OCDE, in order to offer support for the Central and South-East European countries to reform and modernise their public administration.

¹ E.B.R.D. finances investment projects in transition market economies. 27 countries from Central and Eastern Europe benefited by this assistance.

² E.I.B. was created in 1957 in order to support the equilibrate development and the socio-economic cohesion of the Member States. Its action was regulated by a strategic document - The Operational Corporative Plan. The bank is managed by the Governors Council, which is composed from the Ministers of Finance from the Member States and which has its residence in Luxembourg.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

living standard. Thus, Phare assistance is oriented towards developing human resources, local infrastructure, improving social services, sustaining the private sector, etc. Phare funding is therefore an exercise of accustoming the candidate states to the basic procedures of operation of the Structural Funds existing at the level of the EU.

The implementation of the Phare programme was made by means of the **strategic programming documents**¹: the Accession Partnership (A.P.)², the National Programme for the Adoption of the Community Acquis (N.P.A.A.)³, The National Development Plan (N.D.P.)⁴ and the Progress Sheet for Romania and Bulgaria⁵.

The amount allotted by the Commission and approved by the European parliament and the EU Council was decided annually⁶ depending on the population and the GDP. At the same time, the previous

¹ The programming process connects the European Commission (General Direction for Enlargement), European Commission Mission in Romania and Romanian government (Ministry of European Integration).

² A. P. – establishes the priorities of every candidate country, in order to achieve its adhering to the EU. The European Commission approved the Romanian adhering partnership in March 1998. This document was updated for the last time in 2003, as a result of the separation between Romania, Bulgaria and other 10 candidate countries from the Central and Eastern Europe.

³ N.P.A.A. – this document is elaborated by the government and offers details about the candidate country's projects, in order to achieve the objectives of the A.P. Moreover, this document covers a calendar of the priorities' achieving and the financial and human resources which have to be allocated.

⁴ N.D.P. – this document has the strategic, regional and sector development priorities for a specific time period. N.D.P. is created using the Regional Development Plans and reflects the National Development Strategy and the regional and sector Operational Programmes.

⁵ The Road Map was adopted in December 2002 and covers the „road” which has to be covered by Romania in order to achieve the Copenhagen (1993) and Madrid (1995) criteria. Moreover, it specifies the progressive growth of the financial assistance for Romania until its adhering to the EU: 20% in 2004, 30% in 2005 and 40% in 2006.

⁶ Since 2004, the European Funds' programming became multiyear for 8 priority sectors: public administration reform, finance, agriculture, environment, justice, border management, minorities and socio-economic cohesion.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

performance registered by Romania in the pre-accession process was taken into account, as well as the financing needs identified and the capacity of absorption. According to the principle of additionality¹ governing the EU regional policy, community assistance was completed by national budget resources.

The implementation of the Phare programmes started only after the signing of the Financing Memorandum by the Commission and the Government, which represents the legal basis for the programme implementation. It was signed only after the list of projects receiving funding from the allotted annual budget, decided in agreement with the Commission and the Government, was approved by the Management Committee of the Phare Programme and, on the basis of this favourable opinion, the Commission issued the Funding Decision. The Phare programme was implemented under the strict supervision of the European Commission Delegation within the Decentralized Implementation System.

References

1. **Obstfeld Maurice, Peri Giovanni**, *Regional Nonadjustment and Fiscal Policy: Lessons for EMU*, Center for International and Development Economics Research (CIDER), Working Papers C98-096, University of California, Berkeley, 1998.
2. **Prodi R.**, Speech at the opening of the "3rd United Nations Conference on the Least Developed Countries", Brussels, 14 May 2001.
3. **Yuill D., Wislade F.**, *Regional Policy Developments in the Member States: a Comparative Overview of Change*, Regional and Industrial Policy Research Paper, no.45, University of Strathclyde, Glasgow, 2001.
4. **Comisia Europeană**, *Reforma bugetului pentru o Europă în schimbare [The Budget Reform for a Changing Europe]*, Bucharest, 2009.

¹ The document Agenda 2000 establishes the principles of the Structural Funds' function: programming, partnership, additionally, monitoring, evaluation and control.

PUBLIC ADMINISTRATION & REGIONAL STUDIES

3 rd Year, No. 1 (5) - 2010

Galati University Press, ISSN 2065 -569X

5. **European Council**, *Council Regulation No. 1605*, 25th of June 2002, Article no. 4.
6. **European Communities**, *Cohesion Policy 2007-13 National Strategic Reference Frameworks*, Luxembourg: Office for Official Publications of the European Communities, 2007.
7. <http://www.mie.ro/index.php?p=555>.

ISSN 2065 569X